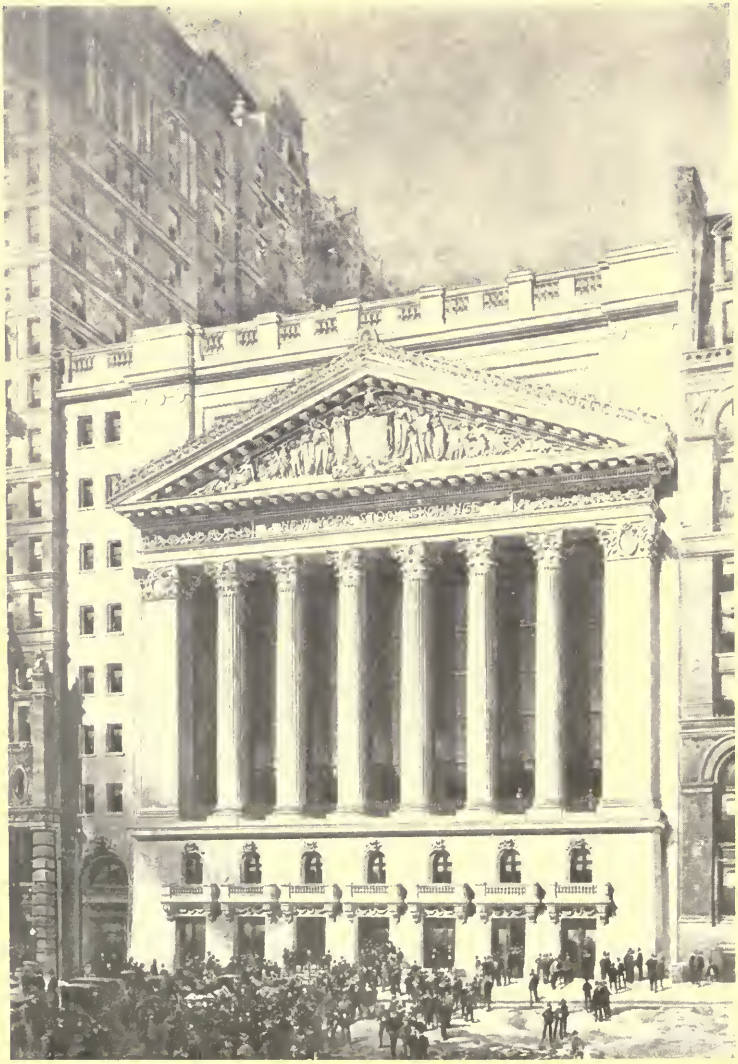
The WORK of WALL STREET

S · S · PRATT



THE NEW YORK STOCK EXCHANGE.

THE WORK OF WALL STREET

BY
SERENO S. PRATT

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1903

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TO

J. EDWARD SIMMONS,

PRESIDENT OF THE FOURTH NATIONAL BANK,
VICE-PRESIDENT OF THE CHAMBER OF COMMERCE,
FORMERLY PRESIDENT OF THE NEW YORK CLEARING-HOUSE
ASSOCIATION AND OF THE NEW YORK STOCK EXCHANGE,

A TYPE OF ALL THAT IS BEST
IN THE WORK OF WALL STREET,

THE AUTHOR DEDICATES THIS BOOK

AS A TOKEN OF HIS
REGARD AND ESTEEM.

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PREFACE

Much has been written about Wall Street, and yet much remains to be written. It fills a large space in the daily newspapers. It has furnished plots for plays, incidents for novels, and has been the theme of brilliant magazine articles. A few books have been published about it. Nevertheless there exists a remarkable degree of ignorance regarding the work of Wall Street. Few indeed have any clear comprehension of what the stock market really is, and why it is. Little is known outside of the financial district of the mechanism of the money market. The history of speculation and its effects on the development of civilization have not been deeply studied. Even many Wall Street men, expert as they are in the actual operations of their business, could give only very inadequate explanations of the great principles underlying it. The newspaper presents on an inside page the daily money article, consisting of long tables of sales and quotations, introduced by a generally careful and intelligent technical review of conditions and movements. In its news columns, under display head-lines of big type, it at the same time gives a sensational and more or less inaccurate account of the latest marvel produced when the Aladdins of Wall Street rub the lamp of speculation. Dramas and novels dealing with the Street have succeeded only in a partial degree in showing life-like pictures of the play of human emotions and ambitions, the hopes and fears, the achievements and the failures devel-

oped there. The magazine articles, though often able and instructive, have usually been written from the controversial standpoint. The books, such of them as have had any serious aim beyond the presentation of advertisements, have been one-sided or restricted in their scope. One gives reminiscences of the men and deals of Wall Street. Another relates to the law which protects and regulates its operations. Still another consists of discussions of various public questions influencing its markets. Others give excellent accounts of the Stock Exchange and the Clearing-House, but do not extend farther than the boundaries of those institutions. Glossaries have also been published of Wall Street terms, together with brief explanations of stock-market processes. But not one book has appeared undertaking to deal in any comprehensive way with the whole subject of speculation, investment, and money.

That there should be this vacuum in literature is all the more extraordinary because Wall Street has now become the second market of the world, and is probably soon to become the first. Its growth in the past five years has been marvelous. Its power is immense. Its influence for good or ill on the destinies of the country, and indeed of the whole world, is measureless. It is time, therefore, that an adequate account should be given of this important center of money and speculation. Hence the author has undertaken the writing of this book, which he hopes may be of value not only in schools of commerce, but also to all who desire to obtain a glimpse behind the scenes of the great stage of Wall Street. He realizes fully that it is impossible to put within a volume of this size an exhaustive description of the mechanism of speculation and investment and a complete history of the stock market; but it has been possible, he thinks, to present a satisfactory statement of the evolution of Wall Street; of the origin, the meaning, the scope, and the operations of the stock market; of the mechanism of the Stock Exchange; of the connec-

tion between speculation and the banks; of the methods of the money and exchange markets and of the main forces controlling them. It has been his aim to carry the reader through all the different stages from the manufacturer of new stocks and bonds to the consumer or investor. Some account is given, therefore, of the promotion and organization of new companies; of the floating of new securities; of their listing and marketing in the Stock Exchange; of the methods of speculation; of the hypothecation of securities for loans; of the bank statement; of gold shipments; of manipulation and corners; and of bucket-shops and other attendant evils of the financial district.

The history of Wall Street in the opening chapter is merely a sketch, and necessarily so, as the aim has been to give a picture of the present rather than an account of the past; but, brief as this sketch is, the author believes that it is the first attempt to give, in regular sequence, a statement of the development of Wall Street in the past one hundred and ten years.

In the carrying out of his design the author has endeavored, on the one hand, to avoid the vice of fine writing, and, on the other, the defect of too strict adherence to scientific treatment. There has been little room for pictorial description. The author, moreover, has conceived his duty to be that of a reporter rather than of an editor. He has sought to present the facts as they are, leaving to others to inquire why they are not something very different. He has endeavored to maintain an impartial attitude toward Wall Street, neither seeking to defend it against just criticism nor joining in the too common assault upon it as a blot upon civilization. No one can study this theme with unbiased mind without being impressed with the indispensable place the stock market fills in modern business, of the great value of its manifold services to the world, and of the extraordinary efficiency of its mechanism; and without, at the same time, realizing how vast are the evils to which

it gives rise, how short and easy is the step from beneficent investment to reckless and unprincipled gambling, and how great is the peril of overspeculation.

To Mr. Thomas F. Woodlock the author is indebted for valuable suggestions and material used in the chapter on Values and Prices. To Mr. R. P. Doremus, Chairman of the Clearing-House Committee of the New York Stock Exchange, he is indebted for the opportunity to make a close study of that remarkable institution, and the chapter on the Stock Clearing-House has been read and approved by him. The author also desires to acknowledge many courtesies and much assistance received from Mr. William Sherer, Manager of the Bank Clearing-House; Mr. James G. Cannon, Vice-President of the Fourth National Bank; Mr. James McGovern, Mr. Charles L. Burnham, Mr. D. MacGreggor, Mr. John W. Dodsworth, Mr. C. L. Healy, Mr. B. Nachmann, Mr. T. C. Martin, and Mr. Samuel S. Jessup; but he expressly absolves them from all responsibility for any misstatements that may unhappily have crept into the volume unobserved. The author also will be pardoned for making grateful mention of the encouragement and help he has received from his wife in the performance of an arduous task under somewhat adverse conditions.

S. S. P.

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THE WORK OF WALL STREET

CHAPTER I

EVOLUTION OF WALL STREET

Long indeed has been the evolution producing the sensitive but powerful mechanism of Wall Street. Man early in his development in civilization realized the necessity of a medium of exchange and invented money. It is recorded in Genesis that Abraham, desiring a burial-place for his wife Sarah, offered money for the cave of Machpelah. The laws of Moses permitted lending upon usury to a stranger, but not "unto thy brother." Usury, in those early days, was practically synonymous with the more modern term "interest," the first use of which in its present significance, as meaning the price of credit, appears to have been in an Act of Parliament in the reign of James I. Coins were introduced by the Lydians. Paper money is said to have been first issued in China a thousand years before Christ. The Greeks theorized about the nature of money and credit, and laid the foundation of the study of economics. It was Demosthenes who said that there were two kinds of wealth: money and credit, the latter being the greater. Checks, bills of exchange, and the art of bookkeeping had their beginnings in ancient Rome. The Italians of the middle ages invented double-entry bookkeeping. The first bank was that of Venice, founded in the twelfth century. Bills of exchange were introduced into England early in the

fourteenth century. Banking in the modern sense, however, dates from the establishment of the Bank of England in 1649.

The Roman collegium was the ancient type of the modern corporation. But while companies existed in Rome, nothing is known as to the way in which the interests of the different persons in the corporations were represented. Stock-certificates were a product of the seventeenth century. The first great modern company was the East India Company, which was incorporated in 1600. Soon after that the Hudson Bay Company sprang into existence. But it was not until the latter part of that century that the shares in these companies began to be actively traded in.

Stock speculation is therefore a development of modern business, although the taking of long risks in trade is as old as commerce itself; and Homer relates how after the combat of Hector and Ajax, the fleet arriving from Lemnos' strands discharged cargoes of wine, which were sold to the hosts of warriors in exchange for brass, iron, oxen, and slaves. This was truly a great speculation.

According to Macaulay, the term "stock-jobbers" was first used in England in 1688, and he gives an entertaining account of the beginnings of the English stock-market at that time. A multitude of new companies, genuine and bogus, were organized, and an active speculation in their shares set in, the first boom in industrials of which we have any account. In 1693 a play was produced satirizing stock-brokers. Shakespeare, years before, had used the word "broker" as many as six times, but not as referring to dealers in stocks. "Time bargains," "bulls," "bears," "puts," and other technical terms of speculation were first used at the end of the seventeenth century and at the beginning of the eighteenth. So large became the unorganized market for securities, that in 1697 Parliament enacted a law to check the evils of speculation, and providing a system of licenses for brokers. Three or four years

later Daniel DeFoe, in one of his pamphlets, attacked stock-jobbing.

This early mania for stock speculation reached its height at nearly the end of the first quarter of the eighteenth century, in the promotion of the South Sea Company in England and of John Law's Mississippi Company in France. The collapse of these two bubble companies caused the world's first great panic in 1720–'24. Guizot, in his history, gives a short but interesting account of the career of John Law, and of the intense excitement created in Paris by his bold financial conceptions. It was found necessary to close the entrances to Quincompoix Street, where the Paris brokers had their headquarters, in order to put a stop to the feverish tumult arising from desperate speculation. So many immense fortunes were won and then lost at that time that this ditty was everywhere sung in the streets:

"On Monday I bought share on share ;
On Tuesday I was a millionaire ;
On Wednesday took a grand abode ;
On Thursday in my carriage rode ;
On Friday drove to the opera ball ;
On Saturday came to the pauper's hall."

Shortly after the failure of John Law the Paris Bourse was founded, in 1726, but the "Change de Paris," out of which it may be said to have sprung, had a history running back to 1304.

The English Parliament passed an act to prevent stock-jobbing in 1734, and forty years later another act was passed to prevent short selling. For nearly a century the curb market existed in 'Change Alley in London, and on July 5, 1773, the London Stock Exchange was formed. Thus the complicated machinery of the money- and stock-markets, the banks, the exchanges, and the processes of speculation are importations into Wall Street. This country has improved, has Americanized them, but did not originate them.

Less than forty years after the organization of the London Stock Exchange a stock-market began to develop in Wall Street. In the United States, as well as in England, a craze for speculation had sprung up after the long war of the American Revolution.

The struggle for independence had strained the resources of the colonies to the utmost, and much suffering had been caused their people. But with the revival of commerce after the war better times set in. The first Congress, sitting in Federal Hall, on Wall Street, had issued bonds, called stock, to assume the war debts of the States, and about $80,000,000 of securities were thus offered to the public. Other stocks had also been issued. In December, 1781, the Bank of North America had been incorporated in Philadelphia. Less than three years later, in February, 1784, a meeting of merchants was held to establish the Bank of New York. Hamilton drew up the plan and constitution of this bank, the first to be founded in this city. Among the places at which subscriptions were received was the office of William Maxwell, No. 4 Wall Street. In 1791 Congress passed, and Washington signed, Hamilton's measure for the establishment of the first United States Bank.

Speculation in the securities thus created set in. Wall Street became a market for them. It is recorded that early in 1792 there was an office for the public sale of stocks at No. 22 Wall Street. A stock list of that year gives quotations of 6 per cent United States stock, and of the shares of the United States Bank and the Bank of North America. A number of men engaged in the business of buying and selling these stocks on commission. Their favorite meeting-place was near a buttonwood tree which stood in front of No. 68 Wall Street. In 1792 Leonard Bleeker and 23 other brokers, as a result of a meeting held at Corre's Hotel, entered into an agreement "solemnly promising and pledging" themselves "not to buy or sell any kind of public

stock at a less rate than ¼ per cent commission on the specie value." The date of this agreement was May 17. This was the earliest beginning of the Stock Exchange, although there was no regular organization until twenty-five years later. With this agreement may be said to have begun the history of Wall Street as the seat of the Stock-Market.

The whole country then contained about as many inhabitants as the State of Ohio now. New York had a population of 33,000, and about 3,400 dwelling-houses. The settled part of the city did not extend above Chambers Street. Wall Street, so called from the old stockade, or wall, that protected the early Dutch city from the Indians, was in 1792 an important street. The City—afterward called the Federal—Hall had been erected there in 1699, on the present site of the Subtreasury, and here Washington had been inaugurated as President in 1789. Hamilton lived nearly opposite, not far from the corner of Broad Street. The lower part was even then given up to trade, but the upper part was a parade-ground of fashion, and many leading families had their residences there. Trinity Church then, as now, stood on Broadway facing Wall Street.

As early as 1752 the merchants had a meeting-place, or Exchange, on Broad Street near Pearl. In 1768 the Chamber of Commerce was organized in the long room of Fraunce's Tavern, a building still standing; and it is of interest to note that questions of money engaged its earliest attention. In 1786 the Chamber protested in vain against the State issuing irredeemable paper money as legal tender. In 1794 the merchants established the Tontine Coffee-House on Wall Street, and this continued the center of the business life of New York until 1827. Here the stock-brokers met for some time.

The first financial machinery required by the new country was banks, and the first great lesson taught by these

institutions, as has been well said, was punctuality. The value of time as an asset in business became more and more appreciated. The success of the Bank of New York led to the organization of the Bank of the Manhattan Company, in the starting of which Aaron Burr was largely instrumental. From 1792 to 1801 the number of banks increased from 3 to 23, with a total capital of $33,550,000. A few fire and marine insurance companies had also been organized. The supply of securities available for investment and speculation made therefore quite a stock-market. The following advertisement, which appeared in the first issue of the Evening Post, November 16, 1801, gives an idea of the dimensions of this market:

PRICES OF STOCKS.

6 per Cent. Funded Debt	98 3-4 per Cent.
3 per Cent....do.... do	56 1-2 *a* 57
8 per Cent. Loan	112 1-2
6 per Cent. Navy Loan	par.

BANK STOCK.

United States Bank	143 *a* 143 1-2 p. ct.
New-York (dividend off)	131 1-2
Manhattan	132

INSURANCE SHARES.

New-York Insurance Co	128 per cent.
Columbian.....ditto	137 *a* 138
United.....ditto	118 *a* 119

Bills of Exchange at 60 days sight.

On London	100 *a* 101 per cent.
On Hamburgh	36 *a* 38 cts. p. mk. b.
On Amsterdam	40 cents per guilder.

E. BENJAMIN, Stock and Exchange Broker,
November 14. No. 50 Wall-Street.

At this time all the banks and insurance companies but one, and the Chamber of Commerce, were located in Wall Street, then, as now, the financial center. As the banks were paying 15 to 18 per cent dividends, there was no small demand for their stocks. With the growth of the country and the rapid settlement of what is now known as "the Middle West," which was then the frontier, new banks were created, and the speculation in their shares increased. The history of Wall Street from this time becomes practically the history of the agricultural, industrial, and commercial development of the United States, a theme much too large for the scope of this book.

The banking capital of the country in 1812 was more than $70,000,000. In this year the second struggle with England began, and the long closing of the ports and the cost of the war caused much distress. The Government had difficulty in floating a war loan. The bankers held a meeting at the Manhattan Bank on August 22, and took measures for their protection. Thus, ninety years ago, the bankers realized the importance of concerted action in financial crises. During this panic—the first of any importance from which Wall Street suffered—90 banks in different parts of the country failed. The war over, a new period of expansion set in. The charter of the first United States Bank having expired, the second bank of that name was incorporated in 1816, and for nearly a quarter of a century this institution virtually controlled the course of the markets. Speculation in bank stocks had become so extensive that it was necessary to organize the stock-market into an exchange, and in 1817 the brokers who, until then, had been working under the agreement of 1792, formed an association under the name of the New York Stock and Exchange Board. This was the second great addition to the mechanism of the financial markets, the first having been the banks. The members of the Board agreed not to give public information of the names of buyers and sellers of

stocks. At this time the outstanding Government securities amounted to $123,000,000. State and city bonds had also been issued, and many new banks and insurance companies formed. In 1818 the records of the Exchange show that 29 different issues of securities were dealt in, including the stocks of 10 banks and 13 insurance companies. A big speculation was for years carried on in the stock of the United States Bank.

In 1807 Robert Fulton succeeded in applying steam-power to navigation on the Hudson River. This achievement, together with the digging of canals, resulted in a wonderful extension of inland commerce. New companies were formed, and a further expansion of the stock-market took place. In New York alone, companies having a capital of $52,000,000 were organized in 1824. In the same year 624 new stock companies were incorporated in Great Britain. There was speculation in New York not only in stocks but in bonds, mines, and cotton. The mechanism of Wall Street had to be enlarged. In 1820 the constitution of the Stock Exchange was revised. Definite rates of commission for Government bonds, stocks, mortgage loans, and foreign and domestic exchange were adopted. A rule of the Exchange prohibited fictitious, or what are now called "wash," sales. In 1821, when the Morris Canal shares were offered to the public, they were subscribed for twenty times over. The newspapers began to devote considerable space to Wall Street. The Daily Advertiser of April 10, 1822, referring to the news just arrived by ship, that the British 5s were to be reduced to 4 per cents, expressed regret that the price of our stocks should be regulated by the jobbers of 'Change Alley in London.

The completion of the Erie Canal in 1825 established the commercial supremacy of New York in the western hemisphere. Up to this time Philadelphia had been the chief market of the country. There, as has been seen, the first bank was organized in 1781. There were the head-

quarters of the all-powerful United States Bank, under the eventful presidency of the brilliant Nicholas Biddle. There also, very early in the nineteenth century, the first American Stock Exchange was formed, with Matthew McConnell as president, in the old Merchants' Coffee-House. It is related that before the New York Exchange was established the brokers sent a delegation to Philadelphia to get a copy of the constitution of its Exchange, and information as to its methods of business. But New York soon forged to the front. Its population and commerce outstripped Philadelphia's, and the power of its banks and stock-market was felt in all the land. London bankers began to establish branch houses in Wall Street. In 1825 the still existing house of Brown Brothers & Company was formed there, as an offshoot of Alexander Brown & Sons of London. In 1837 the Rothschilds appointed August Belmont as their representative in New York, a connection their successors have maintained ever since.

The Stock Exchange in 1827 moved into the Merchants' Exchange Building, which had just been erected on the site where the Custom-House now stands. The city had then a population of nearly 200,000. There were 16 banks, and the local branch of the United States Bank occupied the building that is now the Assay Office. Two events occurred in 1829 of supreme importance to Wall Street. One was the inauguration of Jackson, who immediately began his memorable war on the United States Bank. The other was the application of steam to land transportation. The first train moved by a locomotive was operated in that year. By 1830 the railroad mileage became 30, and eleven years later it amounted to 3,361. Railroad stocks immediately became the object of speculation. In 1830 the first railroad stock—that of the Mohawk and Hudson—was put on the Stock Exchange list. Eight years later "Yankee rails," as they were called, were introduced into the London market, the first security of this kind to be traded in

being the bonds of the Camden & Amboy Railroad. American stocks, however, had long before that time been speculated in in London. The official list, according to Charles Duguid, contained the names of about 60. The panic of 1837 ended the existence of most of them. A New York paper of August 3, 1835, printed, as news, the London quotations of 15 American stocks on June 23. Investment and speculation in railroad securities now became the chief business of Wall Street, and have so continued until this day, although the "industrials" are pressing them in the race for supremacy.

The fierce struggle between Jackson and the United States Bank, culminating in the panics of 1837 and 1839, makes one of the most interesting chapters in the political and financial history of the country. During the ten years from 1830 to 1840, Wall Street was the scene of much excitement and turmoil. The speculation of that period was, in proportion to the resources of the country, as active as that of the present time. There were daring operators then as now. Jacob Barker, for instance, undertook in 1834 to insure the non-removal of Government deposits from the United States Bank until Congress should meet. He demanded a premium of 25 per cent. A corner in Morris Canal and Bank stock in 1835 was the talk of the town. In July and August of the same year 64,000 shares of Harlem stock were sold for future delivery, although the actual issue of stock was only $7,000.

The newspapers now began to pay much attention to the transactions in Wall Street, and regular market reports appeared. On May 13, 1835, the Herald, then published at No. 20 Wall Street, contained the following:

"Stocks—Yesterday the fancy stocks took a tumble of from 2 to 4 per cent on some descriptions, the railroads especially. Money is beginning to get scarce, and there is some fear that the banks mean to curtail. This impression does not prevail generally.

"SALES AT THE STOCK EXCHANGE

"110	shares	East River Insurance	99
25	"	Manhattan Gas Company	129¾
50	"	" " " on time	100
150	"	Mohawk Railroad Company	126
500	"	Utica and Schenectady, opening	128
350	"	" " " "	128⅛
250	"	Jamaica Railroad	189
25	"	United States Bank	112¼
160	"	Union Bank	122
40	"	" "	121¾
100	"	Delaware and Hudson	112¼
450	"	" " "	112¼
200	"	" " "	112¼
310	"	Harlem Railroad	106
550	"	" "	105¼
100	"	" "	105¼
200	"	" "	105¼
51	"	Dry Dock Bank	150
50	"	" " "	149⅝"

Six days later the same paper said:

"A most active business is doing in stocks. The small bite of English news—the probability of stable government on the reform principles—has given additional confidence to our moneyed men." The next week the same writer informs us:

"Stocks went up generally yesterday 2 to 3 per cent. No cause is assigned. The chief of the Hebrew interest dipped deeply. It is said his deposits amounted to $500,000 a day—a second Rothschild, truly. The bears' turn to-day. The United States Bank increased its loans nearly $2,000,000 during the month of April, whereat the Washington Globe lets off a large quantity of thunder. No one will complain at money being plenty, but when the day of payment comes it is almighty awful."

The sales of June 26 were "very large." They amounted to 7,875 shares. In Philadelphia, two days before, the transactions were 2,279. There were crowds in Wall Street then as now. On March 10, 1836, it was said that "Wall Street was impassable." During this year the Stock Exchange appointed a committee, composed of Messrs. Ward, Coit, Nevins, and Le Roy, to investigate the recent speculations in Harlem stock, and it was said by a financial writer of that day that "the system so much indulged in of late of time bargains and cornering will probably be sifted to the bottom. The recent operations in Morris Canal stock, the Harlem Railroad, and the Montauk Railroad have been a series of puzzles to the community, as much so as the roulette table or the faro-bank to the uninitiated in gambling." The panic of 1837 struck Wall Street the preceding year, as on October 23, 1836, nearly a dozen failures were announced in the Street. The panic swept over the entire country, and was felt as severely in England as here. New York bankers, at a meeting May 9, resolved to suspend specie payments. From 1837 to 1839 there were 33,000 failures in the United States involving a loss of $440,000,000. Jackson triumphed in his contest with the United States Bank. This institution after its Federal charter expired, continued in business under a Pennsylvania charter, but finally, in 1841, passed out of existence altogether. Philip Hone, in his diary, says that the losses entailed by the failure of this bank equaled even those of the great fire of December 16, 1835, and he declared it meant "an utter destruction of American credit in Europe."

The American of November 25, 1841, gives the following account of the depreciation in prices:

"To convey an idea of the immense amount of money sunk in stocks within the last three years, we give a list of a small portion only of those bought and sold at our stock board alone:

	Prices.	
	Within 3 years past.	Present.
United States Bank	122½	4
Vicksburg Bank	89	5
Kentucky Bank	92	56
North American Trust	95	3
Farmers' Trust	113	30
American Trust	120	Nothing.
Illinois State Bank	80	35
Morris Canal Bank	75	Nothing.
Mohawk Railroad	76	60
Paterson Railroad	75	53
Harlem Railroad	74	18
Stonyton Railroad	70	23
Canton Company	54	23
Long Island Railroad	60	52"

The great fire, to which allusion has been made, destroyed 648 buildings in the lower end of the city, including the Merchants' Exchange, in which the Stock Exchange had its Board-Room. The Exchange took up its quarters temporarily in Howard's Hotel, No. 8 Broad Street. The fire was followed by a general rebuilding, which transformed the appearance of the financial district. Former Mayor Philip Hone walked down Wall Street, July 13, 1842, and the same evening recorded his impressions in his diary, as follows:

"The splendid edifice fronting on Wall and Pine Streets is now entirely completed, and has been occupied as the New York Custom-House, in all its manifold and complicated departments, since the 1st of May. The building was commenced in May, 1834, and the edifice furnished with its furniture completed in May, 1842; cost, $985,000. The statement of the cost of this magnificent winding-sheet of departed commerce is taken from an elaborate and well-written description published in the Commercial Advertiser of this afternoon. A stranger walking down Wall Street from Broadway would laugh heartily at these lugubrious expressions of mine. With his back to 'New Trinity,' the

most beautiful structure of stone in America, he passes the Custom-House, which cost $1,000,000, 8 or 10 banks, each a palace for the worship of Mammon, and the Exchange with a portico of granite columns such as Sir Christopher Wren had no notion of. These, with the brokers' offices and the seats of money-changers, some of which cost enormous sums, would convey to the mind of the wayfaring man an image wholly different from that of commercial distress and pecuniary embarrassment."

"New Trinity," of which Mr. Hone speaks, has become "Old Trinity." The New Custom-House is now the Sub-treasury. The Merchants' Exchange is now the home of the Custom-House, but has been sold to the City Bank, which will take possession there as soon as the seat of customs is removed to the building going up at Bowling Green.

Mr. Hone's expressions were indeed lugubrious; and posterity, which would not think of laughing at him, laughs at them. For, even as Mr. Hone wrote, the new birth of Wall Street had taken place. Through the labor of panic and the baptism of fire, it was now rapidly growing into the stature and character of to-day. Wall Street soon became no longer a mere street. Its name covered a district. The business of the stock- and money-markets began to overflow Wall into Broad, New, and other neighboring streets. The fall of the United States Bank had brought to an end all pretensions of Philadelphia to supremacy in the financial markets. In the convention of bankers held in April, 1838, to consider the business situation, the New York bankers displayed the greatest spirit and courage. The convention decided to resume specie payments the following January, but the New York banks resumed May 16. "New York," says Prof. W. G. Sumner, writing of this time, "adopted the policy of severe contraction, prompt liquidation, and speedy recommencement. Philadelphia adopted that of relaxation, indulgence, delay, and prolonged liquidation." It

was in 1838 also that the State of New York abolished the practise of special charters for banks, which had given rise to so many scandals and abuses, and adopted its admirable free banking law, that became the model on which, nearly a generation later, the National Banking Act was drafted. The Evening Post of April 18, 1838, said in an editorial, that this law "puts up a barrier against the practise of banking by special charters which we trust will never be removed." From this time the financial supremacy of Wall Street, in this country, has never been shaken.

In 1842, Morse, who seven years earlier had invented a recording instrument, built a submarine cable from Governors Island to the Battery. Two years later, in 1844, the first land telegraph-line was constructed. Hardly any other event has added more to the influence of Wall Street. In this same year was formed the law firm of Charles E. Butler and William M. Evarts, which has ever since been one of the notable institutions of the Street, and which was one of the first of the class of corporation law firms that have now become an indispensable part of the Street's machinery. With the fall of the United States Bank there was a change in the financial policy of the Government, leading, in 1846, to the establishment of the Subtreasury system which exists to-day, although now the foremost financiers are advocating its abolition. The first Subtreasury was opened on Wall Street in this year. In 1853 the Bank Clearing-House was organized, being first located at No. 14 Wall Street. The Street should celebrate the semicentennial of this institution in 1903 with enthusiasm, for it has increased its facilities and augmented its safeguards as has no other part of its mechanism. In the same year the Assay Office was established; and the Corn Exchange, the forerunner of the present Produce Exchange, was incorporated.

The discovery of gold in California and Australia increased the world's wealth so much that there was an immense expansion in investment and speculation. Railroad

construction proceeded at a rapid rate; money poured into the banks, and the banks lent their credit to the promotion of new enterprises and new companies. Instead of "an utter destruction of American credit in England," it is computed that the amount of American stocks held abroad in 1852 represented a value of $261,000,000.

At this time the methods of the Stock Exchange were primitive as compared with those of to-day. Each member of the Board had his seat, and old cuts show that the wearing of tall hats was the fashion among brokers. Much business was transacted in the Exchange and on the curb. The Bankers' Magazine of November 24, 1856, reported that "the aggregate transactions during the past four weeks were exceedingly large, aggregating nearly one million shares."

But overspeculation, following the enormous production of gold, and the abuses of credit in the promotion of new railroad and other companies, together with tariff disturbances, brought on the panic of 1857, which a writer of the period said was "an explosion without adequate cause or premonition." This was precipitated by the failure of the Ohio Life and Trust Company, a Cincinnati concern having a branch office in Wall Street. It had made large advances to Western railroads. A few men still active in Wall Street remember August 24, 1857, when this institution closed its doors. "The failure," said the Herald of that day, "took the Street by surprise. While the public were looking for collapses among railroad companies, they seemed to lose sight of banking institutions." Two days later the Philadelphia Public Ledger said: "The times are sadly out of joint, and the effects of a bad system are daily developing themselves. The banks have been carrying full sail, the country has been importing and individuals living far in advance of capital and production." The New York Times declared that "the New York Stock Exchange as at present managed is little more than an enormous gambling

establishment," which reminds one of some of the indiscriminate attacks made on Wall Street at the present time. All the banks, except the Chemical, suspended specie payments October 14, but resumed two months later. Wall Street was shaken by the shock. From August 22 to October 13, Reading declined 40 per cent, Delaware & Hudson 40, Illinois Central bonds 48, Park Bank stock 44, American Exchange Bank 55½. The size of the stock-market is shown by the sale of nearly 71,000 shares in one day.

During the whole period of the civil war Wall Street was like a boiling lake of excited speculation. The financial situation became so strained that even before Lincoln's inauguration the bankers met at the Subtreasury and resolved to suspend specie payments. The first issue of Clearing-House loan certificates was made at this time, and from 1860 to 1864 a total of $59,159,000 were issued, the largest amount outstanding at one time being $21,960,060 in 1862. Before the war was opened the National debt was under $65,000,000, but in 1866 it amounted to $2,773,000,000. This enormous issue of bonds was floated for the most part in Wall Street, and this was the most extraordinary of all the legitimate achievements of the market. The credit of the country was so low that it was very difficult to float the first loan. The Chamber of Commerce issued an appeal to capitalists to invest in the bonds, and Secretary Chase visited the Street and conferred with bankers in the interests of the loan. In the course of the war the Legal-Tender Act was passed, and in 1863 the present National banking system was established—the first National bank being founded in June of that year. To the National Banking Act, which made New York a central reserve city where half the reserves of the banks in the rest of the country could be kept on deposit, Wall Street owes no small share of its present power. It has augmented vastly its financial resources.

At the outbreak of the war the Stock Board was still a

close corporation, conducting its operations in secret. Quotations were carried by hand from office to office. Each member had a particular seat in the Board-Room; there were less than a hundred members in attendance, and on account of persistent blackballing it was hard to get elected to the membership. Speculation overflowed the regular Board. The curb market became very active. An unofficial adjunct to the Board was started in the next room, and there were extensive arbitrage dealings between them. The market opened on the Street at eight o'clock and continued all through the day down-town, and at night in the corridors of the Fifth Avenue Hotel, and at a later period at an evening exchange. As the war progressed the speculation grew, and the total sales from early morning until midnight were on an enormous scale. At this time the rate of commission was reduced from $\frac{1}{4}$ to $\frac{1}{8}$ of 1 per cent. In 1865 the Exchange prohibited its members from attending the up-town night exchange. Meanwhile so large was the trading, and so exclusive the regular Exchange, that in 1864 the Open Board of Brokers was organized, and continued in existence until 1869, when consolidation with the old Board took place, creating the present Stock Exchange with its admirable system of government and rules for the transaction of business.

Gold became the football of speculation. The first premium on gold was quoted in January, 1862, and it was immediately dealt in the same as stocks. The Government tried in vain to prohibit speculation in the metal. Speculation in gold was branded as unpatriotic, but to no purpose. Legislation was enacted by both the State and the United States in 1863 to prohibit the banks from lending money on gold or bills of exchange, and in 1864 Congress prohibited transactions in gold except for strictly cash delivery at the regular offices of those dealing in it. But restrictive measures served only to advance the premium and failed to stop speculation, and the laws were repealed. In 1864 the

Gold Exchange was organized. The same year, to facilitate deliveries, the Bank of New York arranged for special gold deposits, checks on which became good deliveries for sales of gold. Three years later the Gold Exchange Bank was organized as the Clearing-House for gold transactions. The Gold Exchange continued until 1877. All speculation in gold ceased on the resumption of specie payments in 1879.

When it is remembered that the immense business transacted during the war period was done without the aid of the stock-indicator, the telephone, the cable, and the Stock Clearing-House, there is good cause for astonishment. Stock-Exchange records of complete stock transactions go back only to 1875. Before that only sales on calls were reported. In 1868 the official sales on call at the two Boards were 19,713,402 shares of stocks and $245,245,240 par value of bonds, but, according to a contemporary estimate, these sales only represented one-tenth of the total speculation of the Street, which therefore amounted to more than $20,000,000,000 a year. Comparing this with the records of 1901, when the transactions in stocks and bonds aggregated more than $26,000,000,000,* it is seen that speculation a generation ago was exceedingly active.

It was not until July, 1866, that Cyrus W. Field finally succeeded in his cable enterprise, and in the following month London prices began to be regularly received by cable in New York. Arbitrage transactions soon started. The next year the stock-indicator was adopted. Telephones were introduced in 1876. The Stock Clearing-House was established in 1892, this being undoubtedly the most important contribution to the mechanism of the Street since the organization of the Bank Clearing-House forty years

* These figures for 1901 represent the transactions of the New York Stock Exchange. The speculation in the Consolidated Stock Exchange, on the "curb," and in the bucket shops should be added to make the comparison with 1868 more accurate.

earlier. It has expanded indefinitely the facilities of the stock-market.

With the consolidation of the Stock Exchange and the Open Board of Brokers in 1869, we enter upon the history of Wall Street practically as it exists to-day. Although a full generation has passed, more than one hundred and thirty of the present members of the Exchange were elected in or before that year. The purpose of this book is to describe the present rather than the past; but since it is necessary to know something of its history in order to understand the work of Wall Street, this sketch of the beginnings of its stock- and money-markets is given. But the events of the past thirty-three years can only be touched upon lightly.

The theme is indeed a tempting one. The period is crowded with dramatic episodes. Mighty enterprises have been launched. Great deals have been planned. Enormous speculations have been carried on. Panics have convulsed the Street. Immense fortunes won and lost have startled the world. The period immediately after the civil war was especially prolific in speculative sensations. The harvest of war was wild extravagance, looseness of morals in politics and business, base frauds, and crime. But this period was also a time of reconstruction. The country put its shoulder to the wheel of industry and there was a notable development of the national resources. In May, 1869, the first railroad train moved across the continent. The Atlantic and the Pacific were united by bonds of iron. The Transcontinental stocks then became the playthings of speculation.

It was in 1869 that the "Gold Conspiracy" took place, culminating in the convulsion of Black Friday, September 24, which was undoubtedly the most extraordinary day in Wall Street history. A committee of Congress, of which James A. Garfield was chairman, investigated this conspiracy, and its report and accompanying testimony consti-

tute the best account of it. Jay Gould, arguing that an advance in the premium on gold would stimulate exports of wheat and thus benefit the farmer, believed that the Treasury would suspend its sales of gold, and this, in fact, was for a time the Treasury policy. Therefore he got up a bull pool in gold and advanced the premium from 132 to 144. Other members of the pool liquidated, leaving Gould and his partner, James Fisk, to carry on the deal. Gould was assisted by the Tenth National Bank, in which he had a large interest, and which overcertified his checks $7,500,000 in one day. Garfield called this bank "A Manufactory of Certified Checks." There was a bold and wicked attempt to connect the Grant Administration with the conspiracy, but it did not succeed. The corner was broken by President Grant and Secretary Boutwell, who gave the order to sell gold. Boutwell's telegram, "Sell four millions gold and buy four millions bonds," completely shattered the corner. "No avalanche," it was said by a writer of the day, "ever swept with more terrible violence than did the news of this telegram into the Gold Room." The excitement rose to the highest point. Old operators lost their heads and rushed hatless and half-crazy through the streets, their eyes bloodshot, their brains on fire. New Street was so crowded with excited people that it was a dangerous spot to stand in. The price of gold, which that morning had risen to 162½, fell to 133. The Gold Exchange Bank could not clear the gold transactions, which amounted to $410,000,000. Clearances were suspended for a month, and dealings in gold for a week. Mr. Gould employed over fifty brokers in his operations. One of these was Albert Speyers, whose contracts, amounting to $37,000,000, were repudiated. Smith, Gould, Martin & Company refused to make out a clearance sheet, but one was made up for them by a committee of the Gold Exchange, which showed that they received $20,630,000 gold and delivered $7,500,000, leaving $13,130,000 to be paid for.

"The malign influence which Catiline wielded over the reckless and abandoned youth of Rome," said Garfield in his report, "finds a fitting parallel in the power which Fisk held in Wall Street, when, followed by the thugs of Erie and the debauchees of the opera, he swept into the Gold Room and defied both the Street and the Treasury."

It was Black Friday that inspired E. C. Stedman, the banker-poet of the Street, to write his much-quoted poem beginning:

> "Zounds! How the price went flashing through
> Wall Street, William, Broad Street, New!
> All the specie in all the land
> Held in one Ring by a giant hand—
> For millions now it was ready to pay
> And throttle the Street on Hangman's day."

The Erie wars provided for years the chief sensation of Wall Street. Erie, Northern Pacific, and Reading have indeed been the objects of more speculation, the cause of more flurries and panic, and the victims of more receiverships and reorganizations than almost the entire rest of the railroad list put together. The history of Erie, from the time Daniel Drew entered the directory in 1852, to the time when by main force Gould was driven from the Presidency in 1872, would make a volume of absorbing interest. Charles Francis Adams made it the theme of two brilliant magazine articles soon after the events happened. Drew was in control of the road until 1868. For years Commodore Vanderbilt, who had obtained control of the Harlem, the Hudson, and the New York Central Railroads, fought desperately with Drew in the Legislature, the courts, and the stock-market for the mastery of Erie. In 1868 Drew lost, but Vanderbilt did not gain, control. The road then passed into the hands of Gould, who for four years made it the plaything of his Wall Street operations.

"Freebooters," wrote Mr. Adams, "are not extinct. Gambling is a business now where formerly it was a dis-

reputable excitement. Cheating at cards was always disgraceful. Transactions of a similar nature, under the euphemistic names of operating, cornering, and the like, are not so regarded." During these twenty years of poor Erie's history securities were issued by the bushel, legislative bribery was freely resorted to, law was made another name for plunder, legal pandemonium existed, the courts ran riot. Injunctions and counter injunctions were issued. In the final uprising of the people that followed this period of rottenness in politics and business, two corrupt judges were driven from the bench. The Drew trick of issuing new stock and flooding the market with it, and then by various expedients preventing its transfer on the books, so as still to keep control of the property, was copied by Gould, a greater master of speculation than even he. "This," said Adams, "is the most extraordinary feat of financial legerdemain which history has yet recorded." The Stock Exchange finally made a rule requiring shares of companies to be registered, in order to prevent a repetition of this scandal, but Gould at first refused to comply with it, and Erie was for a time struck from the list. After Mr. Gould was driven from the Presidency under a revolt inspired chiefly by English stockholders, he was sued for $9,700,000, which it was claimed he had converted to his own use from the assets of the road. Mr. Gould was under arrest for a short time, and finally made his famous "restitution," turning over, besides some valuable real estate, securities nominally worth $6,000,000, but which, it was later related under oath to the Hepburn Railroad Committee, were not really worth over $200,000.

General Grant said, in 1869, that he thought there was a "fictitiousness about the prosperity of the country," and he was right; but the collapse did not come until four years later. The panic of 1873 was precipitated by the failure of Jay Cooke, the promoter of the Northern Pacific, and it caused the greatest distress throughout the country. Its

severity in Wall Street is shown by the fact that the Stock Exchange closed its doors for ten days, and that there were seventy-nine stock failures. A long period of stagnation succeeded, but in 1879 the memorable boom that followed the resumption of specie payments was in full swing, and was checked only by the assassination of Garfield in 1881. Wall Street suffered most from the panic of 1884, although its effects were to a considerable extent felt throughout the country. This started with the failure of Grant & Ward and the Marine Bank, due to the dishonesty of Ferdinand Ward, the partner of General Grant. These were followed a few days later by the suspension of the Metropolitan Bank and George I. Seney. A remarkable incident of this panic was the failure of A. S. Hatch, then President of the Stock Exchange. A special election to fill Mr. Hatch's place had to be held in the midst of the excitement, resulting in the selection of J. Edward Simmons, who piloted the Exchange through the ensuing months of severe strain.

In 1890 a world-wide blow to credit was caused by the suspension of the Barings, of London, a blow more disastrous even than that of the failure of Overend, Gurney & Co. in 1866. There was a year of prosperity in 1892, but the next year the last commercial panic set in as the result of the free silver agitation.

In the stock-market, the first notable event of 1893 was the collapse of the McLeod Reading combination. This had been formed in 1892, and on the 11th of February of that year there had been a bull day in Reading which advanced to 65, with sales of 592,000 shares, the total transactions of all stocks reaching 1,446,915 shares, which for nearly seven years remained the "record" for one day's trading. But February 20, 1893, the combination went to pieces; Reading fell to 28⅛, and the day's sales amounted to 1,438,971 shares, of which 957,955 were Reading. On May 3 there was a heavy fall of stock prices, and the next day the collapse in Cordage caused three failures.

The events of the panic of 1893 are, however, too recent to require recapitulation, though it will pay some future historian to make them the subject of careful study. For many months the Treasury was on the ragged edge of suspension of gold payments. The National debt had to be increased in order to buy gold. Europe dumped her heavy load of American securities on our market. Prices of all stocks collapsed like houses of cards. Thirteen stock-exchange houses suspended, and there were more than 15,000 commercial failures. Only the Clearing-House Loan Committee, composed of Frederick D. Tappen, E. H. Perkins, Jr., J. Edward Simmons, Henry W. Cannon, W. A. Nash, and G. G. Williams stood between the business of the country and universal bankruptcy. Wall Street never performed a more valuable service for the country.

President Cleveland's so-called Venezuelan message produced the Wall Street upheaval of December, 1895. Still suffering from the strain of the silver problem, with heavy exports of gold, the continued depletion of the Treasury reserve, making necessary another bond issue, the market broke under the added burden of possibility of war with England, which happily was avoided.

The election of 1896, resulting in a victory for the gold standard, ended the four years of depression in business, and the five years of what is known as the McKinley boom began. Confidence was restored, the crops were bountiful, the gold production was unprecedented, and marvelous prosperity filled the land. Even the Trans-Missouri decision of March 22, 1897, which declared that railroad pooling was illegal, only temporarily checked the revival, although it has since worked great changes in methods of railroad control, introducing "communities of interests," and holding or securities companies, with the possibility of still more important changes in the future. The war with Spain, short and decisive, and bringing about the acquisition of the Philippines, actually augmented the boom; but

in 1899 there was a reaction caused, first by ex-Governor Flower's sudden death, and later by the Boer War and the closing of the Transvaal mines. The passage of the Gold Standard Law of 1900 was the legitimate consequence of the verdict of the people rendered four years before, and which was confirmed by the reelection of McKinley. All records of bank clearings, stock and bond transactions, exports, manufactured productions and volume of trade, were broken in 1901. The high-water mark both of Wall Street speculation and business prosperity was then reached. A strike of steel operators, a short corn crop, the contest for the control of the Northern Pacific, ending in the stock panic of May 9, and the assassination of McKinley, any one of which, under other and ordinary conditions, might have spelled National disaster, did not materially disturb business interests, and only partially reduced the volume of speculation.

New giants had appeared in the speculative arena during this boom—men of daring, of originality, and of that gift of imagination which is as essential to the highest success in finance as it is in art, music, and literature. An era of big things opened for Wall Street. Great industrial companies were formed. Practically every large business was incorporated. The billion-dollar steel corporation was organized. Ten million-dollar banks were created. American capital began to show signs of eagerness for other worlds to conquer, and stretched its hands across the sea.

In this bird's-eye view of the evolution of Wall Street little notice has been taken of persons. It would be pleasant, if space permitted, to retrace the footsteps of Alexander Hamilton in the Street, and note the stir made by the frequent visits of Nicholas Biddle. How delightful must have been those evenings spent by the bankers and brokers of eighty years ago in Baker's Hotel, in Wall near New Street, at the meetings of the social organization called "The House of Lords," of which Bernard Hart was

President! Many an important deal was discussed and arranged there.

Across the broad stage of Wall Street has passed a long procession of notable men; men of achievement as well as men of destruction; men who have added to the wealth and happiness of the country, and men whose only claim to fame was the audacity of their operations. In 1820 Nathaniel Prime and John Ward appear to have been the most active Wall Street speculators. Jacob Barker, the early Rothschild of the market; Jacob Little, the first of the long line of "Napoleons of Wall Street," who made and lost nine fortunes, and was the first to invent the convertible bond trick; Simeon Draper, whose death in 1853 caused a flurry; Daniel Drew, the great speculative director; Commodore Vanderbilt, creator of the New York Central Railroad system; his son, William H. Vanderbilt, whose sudden death, while conferring with Robert Garrett, caused much excitement in financial circles; Jay Gould, both builder and wrecker of values, at once bold and conservative, and at all times subtle, adroit, and able; James Fisk, whose sensational career had a sensational ending in his murder by Stokes; Russell Sage, for years the Street's largest individual money-lender, and a factor in corporations and speculations for half a century; David Dow, Cyrus W. Field, Horace F. Clark, William S. Woodward, Alexander Mitchell, William H. Marsten, Anthony W. Morse, Leonard Jerome, and William R. Travers, the wit of the Street; Henry Clews, the veteran, who has embodied his experiences of forty years in two volumes of reminiscences; Jay Cooke, the first promoter of the Northern Pacific, who lived to see his dreams of its future greatness realized; Henry Villard, who completed the road by driving "the golden spike," and who organized the first big "Blind Pool"; George I. Seney, who promoted the "Nickel Plate," and astonished the Street with the way in which he watered its stock and succeeded in unloading the prop-

erty on the Vanderbilts; Addison Cammack and Charles F. Woerishoffer, long the most noted bears of the stock-market; Henry N. Smith, once partner but later the rival and enemy of Gould; William Heath, who went down in Smith's failure; S. V. White, astronomer and lawyer as well as broker, and once the noted manipulator of Lackawanna; James R. Keene, who has long held a unique place in the stock-market as the skilful manager of colossal operations for himself and for syndicates; Francis L. Eames, President and historian of the Exchange, and founder of its Clearing-House; J. Edward Simmons, the only man who has served as President both of the Stock Exchange and the Bank Clearing-House; W. R. Vermilye, Donald Mackay, and Washington E. Connor; F. D. Tappen, the banker who took the helm in time of panic and piloted the ship of finance through the storm to a port of safety; R. P. Flower, the first leader in the McKinley boom; August Belmont, George J. Gould, W. K. Vanderbilt, George F. Baker, James Stillman, Henry W. Cannon, John D. Rockefeller, William Rockefeller, H. H. Rogers, E. H. Harriman, Jacob H. Schiff, and last, and perhaps the greatest, J. Pierpont Morgan, the only man who has ever carried to successful consummation a billion-dollar enterprise—these are some of the names that have made Wall Street famous.

During the past thirty years the architecture of the financial district has undergone a metamorphosis. Old structures have been torn down and new and towering buildings have taken their place, so that there is now little left as a reminder of the past except Trinity Church, the Subtreasury, and the Custom-House, and even the last is soon to undergo a change.

Accompanying this transformation in the outward form of Wall Street there has been a like change in its inner life and spirit. A notable expansion and improvement in its facilities has taken place. The methods of the stock-market have been modernized. Greater safeguards against reckless

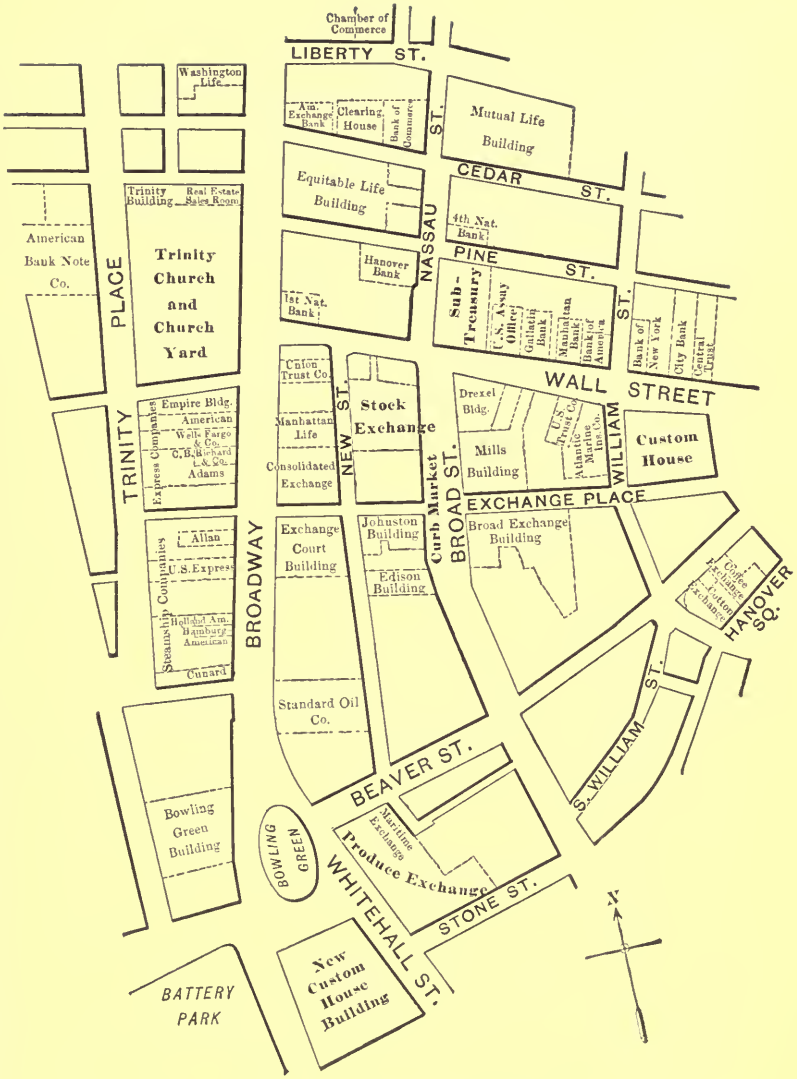
and dishonest speculation have been adopted. New barriers have been raised against the ravages of panic. Speculation is at once bolder and better protected. The banks have increased their capital, augmented their resources, and by combination are able to present a solid front against the approach of disaster. What the future has in store no one can tell. Human nature changes slowly from century to century. There has been much even in recent conditions to remind one of the South Sea and Mississippi bubbles of two hundred years ago. The stock-market will no doubt continue to present the same strange contrasts of panics and booms, of intelligent investment and reckless speculation, of construction and of wrecking, of splendid achievement and of scandalous dishonesty. But unless the experience of the nineteenth century has gone for naught, Wall Street in the twentieth century will show forth far more of glory than of shame.

CHAPTER II

GENERAL VIEW OF WALL STREET

More than a century ago the volume of Wall Street's business was easily computed in thousands. Later its transactions were in millions. To-day any sketch of the work of Wall Street must necessarily be a study in billions. Even the sum of $50,000 paid out of the Treasury in 1792 by Hamilton was sufficient to afford some relief to the Street in a time of financial distress. It would be but a drop in the bucket to-day. In March, 1902, J. Pierpont Morgan, testifying in the Northern Securities case, spoke of a $10,000,000 deal as if it were a small matter.

The boundaries of the financial district are not clearly defined. The term Wall Street, in its narrowest meaning, refers to one of the shortest streets in New York, extending from Broadway to the East River, only that part west of Pearl Street being occupied by bankers and brokers. But in its widest signification it stands for the money and stock-markets, for banking and speculation, for national and international finance. As most commonly used, the name applies to a certain section of the city where the banks and the exchanges and the offices of the corporations which depend upon them are located. The offices of the Trustees of Columbia University and of the excellent Seamen's Friend Society are in Wall Street, but are far less of it than are many institutions that are located far away—as, for instance, the Chemical Bank, facing the City Hall, the general offices of the New York Central Railroad, at Forty-second Street, and the corridors of the Waldorf-Astoria



Map of Wall Street district.

Hotel, where the brokers and operators are wont to congregate in the evening, as in former years they assembled at the Fifth Avenue Hotel, and later at the Windsor.

A man is said to be in Wall Street who is engaged in business and speculation directly connected with the great exchanges and banks, and the banking-houses and corporations in close affiliation with them. The telegraph has vastly extended the boundaries of the financial district, and the brokers' branch offices, with direct wire connections, are to be found in many cities and towns.

Draw a line east and west from river to river across Manhattan Island, along the line of Fulton Street, and the territory south of it comprises the financial center. The city is only three-quarters of a mile wide at Fulton Street, which is only half a mile from the Battery; yet within this narrow district is concentrated more wealth, probably, than in any other like area in the world. The Stock Exchange stands in about the center, on Broad and New Streets, with a narrow wing facing on Wall Street. The Bank Clearing-House occupies a stately building on Cedar Street, between Broadway and Nassau Street. The Subtreasury stands on Wall at the corner of Nassau, facing Broad Street, and the Assay Office occupies the old building adjoining on Wall. The Custom-House, through which one-half of the commerce of the United States passes, has its home in the old Merchants' Exchange building on Wall Street, corner of William, but is to move in a year or two to the new structure now building at Bowling Green. Near the site of the new Custom-House, at the corner of Beaver Street, stands the immense Produce Exchange building, occupying the ground where formerly was the first market of the old Dutch city. The Produce Exchange is devoted to transactions in grains and provisions. The building also includes the Maritime Exchange, which, as its name implies, is the meeting-place of ship-brokers and others engaged in the shipping trade, and which is soon to move

into a home of its own in Broad Street. During the rebuilding of the Stock Exchange the Stock Board has for more than a year occupied a part of the big Exchange room of the Produce Exchange. The Cotton Exchange, founded in 1870, and the largest institution of the kind in this country, has a fine building at Hanover Square, on the site where Bradford printed the first newspaper published in New York. Close to the Cotton Exchange stands the Coffee Exchange. On Pearl, at the corner of John Street, is the Metal Exchange. On Broadway, in the Trinity Building, is the Real Estate Exchange Salesroom, which is the headquarters of the real estate trade. In the settlement of estates many investment securities are also sold there at auction. Farther down Broadway, on the corner of Exchange Place, stands the Consolidated Stock and Petroleum Exchange, where formerly there was a heavy speculation in oil, but which now does a large business in stocks, mostly in lots smaller than those traded in at the Stock Exchange.

The sugar trade monopolizes a large part of the lower end of Wall Street. In Pearl Street is concentrated a section of the tobacco trade. The metal trade gathers around the Metal Exchange, the cotton trade in and around the Cotton Exchange, and the grain trade in and around the Produce Exchange. The steamship and express companies are found on Broadway, below Wall Street. The fire and marine insurance companies center in Wall, Pine, and Cedar Streets. Several of the life insurance companies, including the two largest, whose combined assets amount to nearly $700,000,000, are also in this district. The Standard Oil Company has its headquarters in a building of its own in lower Broadway, and the Western Union Telegraph Company in a building at the corner of Dey Street.

In this financial district there are 35 National and State banks, of which 12 are in Wall Street; 29 trust companies, of which 10 are in Wall Street; the general or principal fiscal offices of 52 railroad corporations; 18 life, 46 fire and

marine, and 22 other insurance companies; 9 safe-deposit companies; 6 express, 21 telegraph, and 18 steamship companies; 42 coal, iron, steel, and copper companies; and of more than 200 large industrial, manufacturing, and other miscellaneous corporations. Every company whose securities are listed in the Stock Exchange has a transfer office within convenient distance of it. The brokers make their headquarters in the towering office buildings, those wonderful structures of steel clothed in stone and marble, which have made the streets in the financial district a series of deep cañons. One of these buildings on Broad Street and Exchange Place is said to contain more rooms than any other in the world. The private bankers, of course, have their elaborate establishments within this district. The house of J. P. Morgan & Company occupies the Drexel Building, at the corner of Wall and Broad Streets, which has the reputation of standing on the most valuable site per square foot of any real estate in New York. The curb market has been situated on Broad, between the Mills Building and the Commercial Cable Building, close to the Stock Exchange, but is obliged from time to time to shift its position.

Object alike of fascination and fear, Wall Street is the best known and least understood street in America; object of fascination, because of the glamour of the great fortunes made and lost there; object of fear, because of its wealth and power. It is as mysterious to the outsider as a Masonic Lodge is to one who has never passed through its ceremonies of initiation. Like Masonry, Wall Street has its code of morals, its ritual or forms of doing business, its working tools, and a strange language which only the initiated can understand. Moreover, no Masonic Lodge is ever tiled more closely than is Wall Street, where, notwithstanding its immense deposits of money and valuable securities, robbery is seldom attempted and still more rarely accomplished, so carefully is it policed.

It will be found that the nearer we get to the mysteries of Wall Street the less mysterious they appear. In truth, strange as may seem some of its terms and methods, nothing could be more direct or simple than the principles upon which it conducts its business.

Wall Street is to the United States what Capel Court and Threadneedle, Throgmorton, and Lombard Streets are to England, the seats of the stock and money markets; but they are international in their scope and power. Wall Street's stock-market is national. London is the Clearing-House of the world. New York is the Clearing-House of one-half of the world. The bonds of every Government, the stocks of every country, are traded in in London. Wall Street confines itself to the securities of the United States. So rich, however, is this country, so extensive its territory and so immense and varied its resources, that there is little need as yet for our capitalists to go outside to find fields for investment, though they are beginning to do so. The scope of Wall Street business is much less than London, but its volume is nearly equal. Moreover, its power is now recognized the world over as second only to that of London. In the past four years several foreign loans have been floated here. British consols, German Government bonds, the city bonds of Copenhagen, Vienna, Munich, and Augsburg, have found a market in Wall Street. Here have been financed the requirements of Mexico; and even Russia has sought the assistance of American capital. The expansion of American territory brings the Philippines within the scope of Wall Street finance. Dewey's guns at Manila were heard around the world. American manufacturers are competing for trade in every market. American capital is employing itself in Canada and South America, has invaded London and Rotterdam, and is gradually spreading itself over Europe and Asia. The time can not be far distant, therefore, when the securities of the world will be represented in the markets of Wall Street as they

are now in London. Even now it is proposed to list certificates representing British consols. "The debtor nation," said Secretary of State Hay in his McKinley memorial address, "has become the chief creditor nation. The financial center of the world, which required thousands of years to journey from the Euphrates to the Thames and the Seine, seems passing to the Hudson between daybreak and dark."

CHAPTER III

THE STOCK-MARKET

Two questions confront us at the threshold of this subject:

1. What is a stock-market?
2. Why is there a stock-market?

An answer to one is practically an answer to the other.

A stock-market is an income market. It is a place where incomes are bought and sold. No one, it is true, goes to the Stock Exchange as he might to an insurance company, and, paying over the requisite amount of money, buys an annuity. Yet, essentially, the stock-market operation is the same. The stocks and bonds traded in on the Stock Exchange would be worthless unless they represented value either present or prospective. Bonds and preferred stock generally represent fixed income. Common stocks represent speculative income—that is, income that may vary from year to year, according to the earning capacity of the corporations issuing them. If a company has no income and no prospect of earning one, its securities are worth no more than so much waste paper. It is true that the stocks of an insolvent company are often quoted in the market, but their value consists in the control of the charter, the franchise, or some other privilege from which it is believed an income may some time be derived. Several months ago a list of 48 non-dividend-paying stocks was published whose average market price was 41, but every one enjoyed the prospect, immediate or remote, of future dividends. There would be no stock-market if there were no incomes.

In Paris an investor will say to his broker, "Buy me enough rentes to pay me an income of, say, 50,000 francs a year." He goes into the market to buy not rentes, but income. In New York the investor does not express himself so directly. He says to his broker, "Buy me $500,000 of bonds." Now, what he is actually buying is not bonds, but the income the bonds will yield. Before placing the order he has calculated exactly what will be the income, taking into account the premium paid, the interest promised, and the duration of the bond. All investments are thus made on the income basis.

The stock-market, therefore, rests upon a sound economic basis. In telling what it is we have indicated clearly why it is. Writing of the beginnings of the English stock-market more than two centuries ago, Macaulay says:

"During the interval between the Restoration and the Revolution the riches of the nation had been rapidly increasing. Thousands of busy men found every Christmas that after the expenses of the year's housekeeping had been defrayed out of the year's income a surplus remained; and how that surplus was to be employed was a question of some difficulty. In our time, to invest such a surplus at something more than 3 per cent on the best security that has ever been known in the world is the work of a few minutes. But in the seventeenth century a lawyer, a physician, or retired merchant, who had saved some thousands and who wished to place them safely and profitably, was often greatly embarrassed. Three generations earlier, a man who had accumulated wealth in a profession generally purchased real property or lent his savings on mortgage. But the number of acres in the Kingdom had remained the same, and the value of those acres, though it had greatly increased, had by no means increased as fast as the quantity of capital seeking for employment. Many, too, wished to put their money where they could find it at an hour's notice, and looked about for some species of property which could be

more readily transferred than a house or a field. There were a few joint-stock companies, among which the East India Company held the foremost place; but the demand for the stock of such companies was far greater than the supply. Indeed, the cry for a new East India Company was chiefly raised by persons who found difficulty in placing their savings at interest on good security. So great was that difficulty that the practise of hoarding was common."

Where there is a demand a supply is usually found. Out of this condition of things grew the English stock-market, and by 1688 stock-jobbing was in full swing in London. Macaulay goes on to describe the output of new companies at this period. A crowd of projectors, ingenious and absurd, honest and knavish, employed themselves in devising new schemes for the employment of redundant capital. Some of the companies took large mansions and printed their advertisements in gilded letters. Jonathan's and Garroway's were in a constant ferment with brokers, buyers, sellers, and meetings of directors. Extensive combinations were formed, and monstrous fables were circulated for the purpose of raising or depressing the prices of shares. "An impatience to be rich," he added, "a contempt for those slow but sure gains which are the proper reward of industry, patience, and thrift, spread through society. It was much easier and much more lucrative to put forth a lying prospectus announcing a new stock, to persuade ignorant people that the dividends could not fall short of 20 per cent, and to part with £5,000 of this imaginary wealth for 10,000 solid guineas than to load a ship with a well-chosen cargo for Virginia or the Levant."

Macaulay's account of the first English stock-market and the evils to which it gave rise, serves as a description of the stock-market of to-day. It shows at once the legitimate reason for such a market and the evils to which it is exposed. We hear so much of the evils that we are apt to overlook the fact that the stock-market represents the thrift

and enterprise of the people even more than it does their gambling propensities.

Wall Street is commonly pictured in the newspapers as an American Monte Carlo. But it has been well said that there is no great modern nation without a Stock Exchange. The first Napoleon, who had a keen appreciation of everything that contributed to the glory of France, did not deem it beneath his dignity to lay the corner-stone of the Paris Bourse. John R. Dos Passos has said that "it is absolutely certain that without the existence of great public marts, like the New York and London Stock Exchanges, the marvelous development and progress of this country, which make it the wonder and admiration of the world, would not have been attained." He quotes Judge Bramwell, in a leading English case, as deciding that it is no disadvantage that there should be a market where speculation may go on, for it is owing to a market of this kind that there are so many railroads and other useful undertakings.

The Stock Exchange provides a place for the investment of savings. A distinct immorality attaches to hoarding, but investment carries a double blessing: it benefits the investor and those who have the use of the money. There is a limit to real estate investments. Not everybody can put their surplus money into land. There must be other objects of investment. So capitalists, large and small, enter the stock-market. The mechanic who puts his few dollars into the savings-bank enters the stock-market by proxy; the bank invests his money for him, some of it in real estate, some in securities. The professional man who buys an insurance policy enters the stock-market by proxy; the insurance company invests its assets very largely in securities. When it is said that there are in the United States 6,373,000 savings-bank depositors and more than 17,000,000 life-insurance policies, it is seen how large a proportion of the population is at all times thus indirectly concerned in the stock-market. Business men and others enter Wall Street

directly, for the purpose of investment of the profits of their own business. The stock-market, therefore, performs the most beneficent function of providing a place where investments can be made and incomes secured.

As practically all large business affairs are now carried on by companies, it follows that stocks and bonds constitute about the only form of investment outside of real estate. And they are the best form of investments; first, because they are so easily converted into cash, and, secondly, because they are so easily hypothecated for loans. There is always a market for securities in Wall Street. There has never been a time in recent years when a stock or bond of which Wall Street possessed any knowledge could not be sold there, provided the price was satisfactory. A man can convert a fortune into money in a day, or, like Andrew Carnegie, capitalize his entire business in a single operation. To obtain a loan on real estate one is put to considerable expense and labor. There must be a search of the title, and the mortgage to secure the loan must be duly recorded. But to obtain a loan on marketable securities, all one has to do is to carry them in an envelope to a lender of money, and the line of credit may be obtained in a few minutes.

Wall Street exists, therefore, because the business of the age has need of it, because it is essential to civilization. But, like everything else human, this useful agency of thrift and enterprise is liable to abuse. Macaulay has shown how more than two centuries ago men who had saved money sought to invest it, an act of the highest wisdom, and how the demand for investment grew, first into a craze for speculation, and finally into gambling and fraud.

In Wall Street, upon the substantial foundation of investment, has been built a vast superstructure of speculation. Speculation is an investment of money in which large risk is taken in expectation of great gain. But it is not easy to draw the line where investment ends and speculation begins. In Wall Street such a line is drawn, but it is

an arbitrary division. When a security is bought and paid for in full, put away in a place of safe keeping and held for the income it yields—that is called an investment. The great bulk of the dealings in bonds are for investment. When a security is bought on margin and held for sale as soon as the price advances—that is speculation. The bulk of the dealings in stocks are speculative.

But speculation may be as truly an investment as investment itself. Most investors who pay outright for their securities are ready to sell them again at a profit. They buy them for the incomes, but if the advance in price is large enough, the profit in selling may be more attractive than the profit in keeping. On the other hand, the speculator buys on a margin to sell again on a rising price, but he buys and sells on an income basis the same as the investor. All wholesale business in modern trade is done on credit, which is only another form of the Wall Street system of margins. The merchant who restricts his purchases to the amount his cash capital can pay for in full, must do a comparatively small business. The wholesaler's capital, in a certain sense, corresponds to the speculator's margin. The former buys on time and borrows of the bank the money to pay for the goods as the time for payment approaches. With a capital of $100,000 he may buy, say, $500,000 worth of goods. It is only by a system of credits that the great operations of modern business can be conducted. The speculator buys stocks, like the merchant, on credit. With a capital of $10,000 the investor can buy 100 shares of stock, selling at par value of $100 per share, and pay for them in full. But with $10,000 deposited as a margin the speculator can buy ten times as much stock, with the chance of realizing ten times the profit. Of course the risk is much greater. If the price declines the speculator may lose his entire margin or capital; but the merchant also runs a risk in buying goods in excess of the amount of his capital. Except that there is a greater mo-

bility in the stock-market than in other markets, so that changes in prices are more rapid and extreme, the risk in both cases is equal.

The operations of the merchant and the speculator are therefore, in the last analysis, essentially the same. If all business, whether in stocks or in trade, were conducted strictly on the cash or investment basis, the transactions would be very limited. Credit means expansion and activity. In times of panic, when credit is withdrawn, speculation ceases, and all business becomes of the investment order. Then stagnation sets in, wages fall, and wide-spread suffering is caused. Some one has said that speculation is "a disease of the mind"; but Henry Clews, in his testimony before the Legislative Committee which investigated corners in 1881, gave a far better definition. He said that "speculation is a method for adjusting differences of opinion as to future values, whether of products or of stocks. It regulates production by instantly advancing prices when there is a scarcity, thereby stimulating production, and by depressing prices when there is an overproduction."

There is a point, however, where speculation becomes a disease of the mind: it is the point where it changes into mere gambling. If it is difficult to draw the line between investment and speculation, it is still more difficult to draw that between speculation and gambling. Yet there is a difference between the two, although many critics of Wall Street fail to see it. The speculator may be defined as a man who, making a study of business conditions and of the earning power of the companies in whose stocks he purposes to trade, buys because he believes that prices ought to advance, or sells because he believes they will fall; and does so on a margin ample to protect him against any ordinary vicissitudes of the market. He exercises the same foresight and conservatism as does the merchant who places a large order for goods. The gambler in stocks is one who goes it "blind," buys and sells without due study

of conditions or of the property in which he invests, but trusts to chance. He often risks more than he can afford to lose, perhaps wasting the savings of many months in one transaction. He might as well risk his money on a horse-race or a roulette table. Wall Street is full of gamblers of this kind. "People will deal in chance," said Jay Gould to a Senate Committee. "Your minister, doctor, and barber have all the same interest in speculation."

Into the Street crowd hundreds of men and women, drawn by the stories told of the enormous fortunes made there, the great sums cleared in one deal, the big profits of a single transaction. The glamour of speculation fascinates them. In the year 1902 the story of John W. Gates's sensational deal in Louisville and Nashville stock, in which he bought control of a great railroad in a few days, served so to excite the gambling propensities of the country that Wall Street was soon filled with a crowd of outside speculators. Without training or study or intelligent consideration, these outsiders, or "lambs," as they are often called, stake their money on the mere chance of the rise and fall of prices. In other words, they bet on quotations. No wonder they are generally well sheared in the Street. "Gamesters die poor," says Andrew Carnegie in his Empire of Business, "and there is certainly not an instance of a speculator who has lived a life creditable to himself or advantageous to the community. The man who grasps the morning paper to see first how his speculative ventures upon the exchanges are likely to result, unfits himself for the calm consideration and proper solution of business problems."

The gambling in stocks, however, is not limited to the class of outside amateurs. The Street has its professional gamblers as well—men who know every trick of the desperate business in which they are engaged; "plungers" who take enormous risks for the chance of enormous gain. A very considerable proportion of the business of the

Stock Exchange, and practically all the business of the bucket-shops, is pure gambling.

The statistics of the record-breaking year of 1901 may be studied to advantage by those who desire to obtain an idea of the scope of speculation and of some of the laws which govern it. In that year the total sales of listed and unlisted stocks traded in at the Stock Exchange represented a par value of $25,272,329,200, which was three times the total par value of all the stocks admitted to dealings by the Exchange—a fact revealing the speculative character of the transactions. In a single year the entire supply of stocks was sold three times over. These stocks included many that are rarely traded in at all. In the active stocks the speculation was much heavier, and there were some whose entire capital changed hands ten to twenty times over in the course of a year. The following are 9 stocks the total number of whose listed shares were, in 1901, sold nearly fifteen times over:

	Total sales shares.	Number shares listed.	Times sold.
St. Paul	12,700,000	558,218	22⅞
Union Pacific	22,246,000	1,040,514	21¼
American Sugar	8,121,000	450,000	18
Rock Island	8,195,000	599,619	13½
Manhattan	6,086,000	480,000	12⅝
Wabash (preferred)	3,009,000	240,000	12½
Atchison	12,177,000	1,020,000	11⅞
Brooklyn Rapid Transit	5,362,000	450,000	11⅞
Erie	11,185,000	1,123,470	10
	89,081,000	5,961,821	14⅝

This means not only speculation, but overspeculation. Such a market could hardly be termed healthy, and it is not surprising that at the height of the speculation the severe convulsion of May 9 occurred. Nine days earlier, on April 30, the total sales of the day were 3,270,884 shares, of which 2,150,517 were of nine stocks, as follows:

	Total sales.	Number of shares listed.
United States Steel	489,444	5,084,780
Erie	309,800	1,123,470
Atchison	247,450	1,020,000
United States Steel (preferred)	220,140	5,102,773
Union Pacific	206,353	1,040,514
Southern Pacific	151,800	1,978,321
Atchison (preferred)	141,530	1,141,995
Northern Pacific	94,300	1,550,000
New York Central	89,700	1,150,000

Thus, in one day, about one-eighth of the entire capital stock of 9 great companies were sold in the Stock Exchange. On April 24, 1901, 662,000 shares of Union Pacific—two-thirds of its entire issue—were sold. On April 15, 1902, 877,000 of the total 1,200,000 shares issued of Southern Railway were traded in. On one day in February, 1893, there were 957,955 shares ($50) of Reading sold.

It is only within a recent period that the volume of stock transactions has been studied with a view of ascertaining what, if anything, they reveal of the real conditions underlying the stock-market. Most people imagine that the daily total of sales shows only the degree of the market's activity. Sometimes the sales do not even do that, for it not infrequently happens that professional manipulation swells the total of sales when the market actually is dull. A few months ago commission houses were complaining of a lack of business when the daily sales averaged 600,000 shares. As a matter of fact, however, the record of sales intelligently studied proves one of the most important indices to the actual conditions of the market. One of the oldest and largest banking-houses in Wall Street keeps a careful record of total sales as one of its guides to its judgment of the course of the market. Taking the sales of 20 active railroad stocks as the basis of its calculations, it has for twelve years divided the

record of these sales into two columns, one giving the total transactions when prices were advancing, and the other the sales when prices were declining. The following table, prepared by this house, shows the millions of shares of 20 active railroad stocks dealt in in the bull and bear periods of each year:

Sales

	Millions of Shares.		Excess.	
	Bull periods.	Bear periods.	Bull.	Bear.
1890	24	15	9	..
1891	26	24	2	..
1892	38	48	..	10
1893	17	51	..	34
1894	16	23	..	7
1895	32	30	2	..
1896	21	30	..	9
1897	47	22	25	..
1898	49	47	2	..
1899	116	88	28	..
1900	114	43	71	..
1901	170	72	98	..

An examination of this table shows that in the ten years from 1890 to 1899, inclusive, the number of shares dealt in in the bull periods was only 8,000,000 more than the number sold in the bear periods. In other words, every share bought in those ten years was sold again, excepting 8,000,000, the total transactions of the 20 stocks having been 764,000,000 shares. It is a fair inference that the 8,000,000 went into the hands of permanent investors. The remaining 756,000,000 shares represented the speculative business. In the panic year of 1893 the sales in the declining market were 34,000,000 shares in excess of the sales in the bull periods. In the boom years of 1900 and 1901 the excess of shares traded in in the bull periods over those sold in the bear periods was 169,000,000. In the preceding ten years, as has been seen, the bull and bear

periods nearly balanced each other, but here, in two years, a tremendous excess appears on the bull side. The inference drawn from this was, that an immense number of shares had been bought for sale, but were still held awaiting a favorable opportunity for realization of profits or possibly a time of forced liquidation.

During the year 1901 the sales of stock averaged upward of 900,000 shares a day except on Saturdays, when the Exchange is open only for two hours. There were several Saturdays, however, in which the two hours' business aggregated more than 1,000,000 shares.

Taking 900,000 shares a day as a basis of calculation, it is roughly estimated that 300,000 shares represent manipulation, 300,000 the transactions of the room traders, and 300,000 the actual buying and selling by pools and public. Therefore, on an average day, only one-third of the total transactions represents real business outside of manipulation and room trading. This estimate, of course, is merely an estimate of average conditions. There are days when manipulation represents nearly all of the dealings. There are other days when the room traders constitute nearly the entire market. There are days in which the public is predominant.

Taking one month with another, there is probably an average of 60,000 persons in the stock-market all the time. In periods of activity there are doubtless many more, in periods of dulness and uncertainty many less, but the market can, as a rule, depend upon this support for its speculative business. It does not follow that the same 60,000 persons are in the market all the time. Wall Street is like a hotel. New guests are constantly arriving and others leaving. Sometimes every room is occupied and cots have to be placed in the halls, so great is the crush. At other times half the house is empty. This estimate applies only to the New York Stock Exchange and its customers. To the 60,000 individuals who constitute its market, must be added

the many patrons of the Consolidated Stock & Petroleum Exchange, and the crowd of small speculators who frequent the bucket-shops, and who may be likened to the camp-followers of a great army. The New York Stock Exchange, however, makes the market for stocks. Its prices govern the outside speculation as absolutely as they do that within its own walls; and while the outside speculation is of a very considerable, though unknown, volume, in speaking of the "stock-market" the reference is always to the business of the Stock Exchange.

The market is divided into two main divisions: one, the bulls, representing those who buy stocks in the expectation that they can sell at higher prices; and the other, bears, or those who sell stocks in the expectation that they can buy them later at lower prices. A bull who has bought is "long" of the market; a bear who has sold is "short" of the market. A "long" who sells at higher prices is said to have realized his profits, or if he sells at a loss is said to have liquidated. In case the sale is the result of an exhausted margin or the calling of loans, it is forced liquidation. A "short" who buys stocks is said to have "covered," and this term applies whether he has bought at a profit or a loss. When too many persons have bought stocks the "long" interest becomes too heavy for the market to carry, and it is generally comparatively easy for the bears, by selling short, to depress prices and force the "longs" to sell, when the "shorts" can cover at a profit. This operation is generally called "a bear raid." On the other hand, when the "short" interest becomes too large it is generally easy for the bulls to advance prices, thus forcing the "shorts" to cover. A "short" interest is often an element of strength to the market because it creates a demand for stocks to cover.

There are two other divisions in the market, the professionals and the public. The professionals are those who make a business of speculation. The public is a class of in-

dividuals who, engaged in trade or commerce, appear in the Street as occasional speculators.

In a newspaper of August 3, 1835, appeared this interesting item: "New Orleans, Kentucky, Tennessee, and Ohio stocks sell at high prices. Merchants bring parcels of these stocks across the mountains. They are better than bills of exchange. A great many merchants in the streets around Wall Street now dip privately in stock speculation. Many of the officers of the banks and insurance companies do the same thing. This is the cause of the great increase of stock speculation. Pearl Street is nearly impassable by reason of the quantity of boxes on the sidewalks. So in Wall Street by the groups of brokers."

This is an early picture of the public in the stock-market. To-day, as nearly seventy years ago, merchants dip not only privately, but openly in speculation; while not only New Orleans, Ohio, and Tennessee are represented in the market, but Chicago—a city then unknown—and the great far West, reaching even to the Pacific. For the stock-market is thoroughly national in its scope.

A market that has no "public" is in a most unsatisfactory condition. Professionals can and do buy and sell among themselves, but this is a process not unlike the "swapping" of horses between regular horse traders. The public supplies the new interest in the Street, the fresh demand, the increased capital. We have already seen that only about one-third of all the transactions represents real buying or selling outside of manipulation and room trading. Of this one-third, the public interest is decidedly the most important.

The professional is a class that includes many different kinds and degrees of operators. The banking-house carrying 150,000 and more shares and the curbstone speculator who buys 10 and 20 shares may both be, in the true sense, professionals. They are both, one in a wholesale and the other in a retail way, engaged in the busi-

ness of discounting the future. Both make a study of values and make a profit, large or small, by their intelligence in correctly reading the signs of the times. They are the skilled workmen of the Street, and they constitute a highly trained body of experts in stock values and market prices. In their way they display as much ability as the scientist, the artist, and the artisan. In this class of professionals are many skilled in manipulation. In this class also must be placed the room traders, or those members of the Exchange who do business only for their own account and who become skilled in knowing how to take quick advantage of the ever-moving prices in the board room. To the professional, speculation is like a game of chess; and a man like James R. Keene plays it with the skill of a Lasker, and will often call "mate in twelve moves" before his opponent even realizes that he is in difficulty.

There is still another class of speculators who are called "insiders." They are directors or officials of corporations or in other positions where it is possible to obtain inside information as to the business of the companies whose stocks are traded in in Wall Street. They know things in advance of the public or even the professionals. They are able to speculate on the vantage-ground of certain knowledge, but even insiders sometimes slip in their operations. There have been speculative directors who, selling the stock of their own company short, have found themselves cornered. It is an adage in the Street, that there is no easier way to lose money than to bet on a "sure thing."

There are 429 different stocks admitted to dealings in the Stock Exchange, but there has never been a day in which as many as 200 of these have been actually traded in. About 150 stocks constitute an average day's market. Stocks actually traded in are called active; those not traded in are inactive. A stock may be active to-day and inactive

to-morrow, and the reverse. There are two main divisions in the stock-list, namely, railroad stocks and industrials. There are several subdivisions in each of these two classes. The railroad stocks are divided into groups representing systems. For instance, there are the trunk-line group, representing the Pennsylvania, the New York Central, the Erie, the Lackawanna, and the Baltimore & Ohio; the coalers, including the Reading, the Jersey Central, the Lehigh Valley, the Delaware & Hudson, and the Lackawanna, which are carriers and miners of anthracite coal; the Grangers, which include the St. Paul, the Northwestern, the Burlington, the Rock Island, and other lines in the grain-producing section of the country; and the transcontinental stocks, comprising the Union Pacific, the Southern Pacific, the Atchison, the Northern Pacific, and the Great Northern, which are lines stretching from the Middle West to the Pacific. The traction stocks are those of the leading street-railway systems. The industrials are divided into groups representing manufacturing, mercantile, oil, gas, electric, and other companies. Both classes of stocks are further subdivided into groups representing ownership. For instance, the Standard Oil group includes Standard Oil, Amalgamated Copper, and the Missouri, Kansas & Texas, in which the Rockefellers and other Standard Oil capitalists are interested.

Restricting ourselves to the railroad list only, the Vanderbilt group consists of the New York Central, the Boston & Albany, the West Shore, the Harlem, the Rome, Watertown & Ogdensburg, the Lake Shore, the Michigan Central & Canada Southern, the Cleveland, Cincinnati, Chicago & St. Louis, the New York, Chicago & St. Louis, the Lake Erie & Western, the Northern Ohio, the Pittsburg & Lake Erie, and the Chicago & Northwestern, the whole making a system represented by $1,157,000,000 of stocks and bonds. The Vanderbilts also own one-half of the Chesapeake & Ohio, and are interested in the

Lackawanna, the Delaware & Hudson, and the Lehigh Valley.

The Pennsylvania group consists of the Pennsylvania Railroad, the Pennsylvania Company, the Pittsburg, Cincinnati, Chicago & St. Louis, the Pittsburg, Fort Wayne & Chicago, the Cleveland & Pittsburg, the Western New York & Pennsylvania, the Long Island, the Norfolk & Western, the Baltimore & Ohio, and the Chesapeake & Ohio, constituting a system represented by $1,341,000,000 of securities.

The Gould group consists of the Missouri Pacific, the St. Louis & Southwestern, the Texas & Pacific, the International & Great Northern, the Denver & Rio Grande, the Rio Grande Western, the Wabash, and the Wheeling & Lake Erie, whose stocks and bonds aggregate $810,000,000. To this group have recently been added the Ann Arbor, the Western Maryland, and the West Virginia Central.

The Morgan-Hill group consists of the Northern Pacific, the Great Northern, the Chicago, Burlington & Quincy, the Erie, and the Chicago, Indiana & Louisville, the first three being included in the much-discussed Northern Securities Company. This group is represented by $1,398,000,000 of securities.

The Morgan group consists of the Reading, the Jersey Central, the Lehigh Valley, and the Southern Railway, to which has been recently added the Louisville & Nashville, their total securities being $1,014,000,000.

The Harriman group consists of the Union Pacific, the Southern Pacific, the Illinois Central, and the Chicago & Alton, whose securities aggregate $1,046,000,000.

Thus W. K. Vanderbilt, A. J. Cassatt, George J. Gould, J. Pierpont Morgan, James J. Hill, and E. H. Harriman, and the capitalists associated with them, represent $6,756,000,000 of railroad stocks and bonds, or considerably more than one-third of all the securities traded in at the Exchange. They are also interested in many industrials and

traction companies, Mr. Morgan being the dominating force in the United States Steel Corporation, and Mr. Gould controlling the Western Union Telegraph and the Manhattan Elevated Railroad.

There is still another line of separation in the market—that dividing securities into listed and unlisted stocks and bonds. Both are dealt in on the Exchange, and the difference between them will be explained in another chapter.

It is important to keep these different classes and groups in mind in order to understand Wall Street, for the stock-market is a collection of many small markets, each distinct from the other and subject to special influences, and yet bound to the others by certain great forces. There are days when the entire list rises or falls, swayed by some irresistible influence which controls the movements of prices without distinction of classes or groups or names. On other days, however, the different groups move independently of each other. For instance, if the banks are discriminating in loans against unlisted stocks, these may be very weak while the rest of the stocks may be strong. At other times the industrials advance, while the railroad stocks, perhaps because of a war of rates or some adverse legislation, may decline. Bad crop news, which would depress the Grangers, might not have any effect on the transcontinental stocks. A strike of miners would hurt the coalers, but might not affect the Grangers. Mr. Gould might be engaged in certain operations that would influence the prices of his stocks, while those of the Vanderbilts might not change in the least. There is, however, a strange thing in the market which is called "sympathy," and it sometimes happens that one stock or group of stocks will have a sympathetic effect upon another, although there is no close connection between them.

CHAPTER IV

VALUES AND PRICES

EVERY reader of the financial page of a daily newspaper—and there is no other page more frequently consulted—is familiar with the table of figures, a column long, headed "Sales at the New York Stock Exchange" or "Quotations for Stocks." This table is generally presented as follows:

Sales.	Stocks.	Opening.	High.	Low.	Close.	Net changes.
86,650	Amalgamated Copper....	63½	65⅝	63⅜	65¼	+1
50,900	American Sugar.....	126½	126¾	123⅝	125½	— ⅝
37,965	Manhattan Elevated	129⅝	132⅝	129½	132	+2¾
13,120	Pennsylvania Railroad ..	150¾	150⅞	150¼	150⅝	+ ½
25,000	Reading	54⅞	55⅛	54½	54⅞	....
22,735	U. S. Steel (preferred)....	94	94⅞	93⅞	94¾	+ ⅞

This is an abbreviation of one day's quotation list. The first column gives the number of shares sold; the second the name of the stock; and then follow the opening, highest, lowest, and closing prices of the day. The last column shows the net change for the day, namely, the difference between the closing prices of to-day and yesterday. The plus sign signifies an advance; the minus sign, a decline; no sign, that the price remains the same. For instance, on this day 86,650 shares of Amalgamated Copper were sold. Its opening price was $63.50 a share; its highest price was $65.37½; its lowest, $63.37½; its closing, $65.12½. This closing price was one dollar a share higher than the closing price of the day preceding. Now, it does

not follow that because only four prices are quoted in this list that there were only four prices during the day. On the contrary, there were probably a hundred different transactions in this stock, and thus a hundred prices. Every sale made during the day is recorded by the stock indicator, or ticker, but most papers give only a summary showing the opening, highest, lowest, and closing prices.

To an outsider the phenomena of sudden changes in prices, even in one day, seem an insoluble mystery; and even the Wall Street expert is often puzzled to account for the frequent and wide divergence of prices and values. Why, it may be asked, should such a stock as Manhattan sell as high as $132\frac{3}{8}$ and as low as $129\frac{1}{2}$ in one day? Surely the difference of $2\frac{7}{8}$ in price could scarcely represent any corresponding change in the earning power of the road. Frequently prices fluctuate far more widely than that. A difference of $10 and even $25 a share may occur in the price of a stock in two or three hours. In the spring of 1902 American Power broke from 198 to 120 in one day, and in the Northern Pacific corner the common stock of that railroad advanced several hundred points to 1,000. How wide the fluctuations may be in the course of a year is indicated in the following selection from the quotation list of 1901, giving the price changes of three industrials and three railroad stocks:

	High.	Low.	Close.
Amalgamated Copper	130	$60\frac{1}{2}$	$69\frac{1}{2}$
American Sugar	$152\frac{7}{8}$	$103\frac{1}{4}$	$116\frac{7}{8}$
American Tobacco	144	99	138
Atchison	91	$42\frac{1}{4}$	$80\frac{1}{4}$
St. Paul	188	134	$165\frac{1}{2}$
Union Pacific	133	76	$103\frac{1}{8}$

Even a superficial observer realizes the absolute inconsistency that often exists between values and prices. Logically, the price of a stock ought to be identical with

its true value. In fact, the two are often widely separated. A dividend-paying standard stock of international reputation like St. Paul sells at one hundred different prices in the course of a day or week, and in the course of a year, as has been seen, the difference between the highest and lowest prices is $50 a share. Is there an adequate explanation of this mystery? We are now face to face with one of the fundamental problems of the stock-market.

This difference between intrinsic values and market prices is, however, by no means confined to Wall Street, although it is more strikingly exhibited there. A man owns a house from which he derives a net income of $1,000. The house is worth, say, $20,000, and the income of $1,000 is 5 per cent on the investment. But if he had to sell the house quickly he might not find a ready purchaser, and would have to sacrifice the property, say, for $10,000. There has been no change in the actual worth of the house. It is in as good a condition as before, and the income continues, but the price is 50 per cent of the true value. Or the owner of the property may find that a corporation wants it for some important purpose, and is willing to pay a big price for immediate possession. In this case an urgent demand has advanced the price, although there has been no change in income. Let us carry the illustration further. Suppose the corporation wants the property, but wants it cheap, and is willing to wait a while for it. Thereupon it begins to manipulate the market for real estate in that vicinity, and by various expedients impresses the owner with the belief that the prices of property on the street are likely to decline, and that he had better sell for what he can get now than wait and perhaps do worse. There has been no change in value as measured by income, but manipulation has changed the price. Apply all this to stocks, and an idea is formed of the conditions that produce the often startling differences between values and prices.

If prices always represented value it would seem as if stocks paying 4-per-cent dividends would sell practically at the same prices; those paying 5 per cent at higher prices, and so on. That this is not always the rule is shown by the following table, giving the yearly dividends in 1901 and the last prices of that year of a number of well-known stocks:

	Dividends.	Last prices. 1901.
Manhattan	4	137½
Michigan Central	4	156
Baltimore & Ohio	4	106½
Western Union	5	92⅝
Louisville & Nashville	5	106⅞
New York Central	5	167¼
Canadian Pacific	5	113⅜
Rock Island	5	153⅞
Omaha	5	140
Jersey Central	5	195
St. Paul	6	165½
Northwest	6	206
Illinois Central	6	139
Pennsylvania	6	150½
American Tobacco	6	138
Sugar	7	116⅞
Metropolitan	7	161
Lackawanna	7	257½
Lake Shore	7	350
Consolidated Gas	8	219¼
Pullman Palace Car	8	218

It is not easy to reconcile the apparent inconsistency of a 6-per-cent stock selling for less than a 4-per-cent, and an 8-per-cent stock selling for less than a 7-per-cent. It seems evident, however, that prices, while controlled by intrinsic value up to a certain point, are subject also to certain laws that do not affect values in the least.

What constitutes value? In the case of a bond its value is measured:

1. By its rate of interest.
2. By the date of its maturity.
3. By the nature of the security pledged for the payment of the principal.

4. By the supply of money seeking investment.

In the case of a common stock value is measured :

1. By the dividend it pays.

2. By the net income of the company after payment of fixed charges and operating expenses, all such net income belonging to the stock.

3. By the character of the management, on which in large measure depends the continuance of dividend payments.

What makes the price? By price, of course, is meant the sum of money for which a stock or bond is sold in the market. Price, strictly speaking, should be value expressed in dollars, and quotations are prices as recorded on the tape or in the market report. The chief influences that make prices are :

1. Intrinsic value.

2. Current news, which may not affect real values in the least, but which Wall Street thinks may enhance or injure values.

3. The condition of the market machinery for speculation. For instance, stringency in the money-market may not affect the earning power of a company in the least, but may temporarily affect the market price of its stock.

4. Manipulation, or the fine art of making prices what the manipulators want them to be, independent of what they ought to be.

5. The market supply of the stock for speculative purposes.

Wall Street is always striving to discount the future, and much of the mystery that surrounds this question of price is cleared up by keeping in mind the fact that the price represents what the Street thinks to-day will be the values of to-morrow or next month or next quarter. Often prices, while at variance with present values, accurately represent future values. Quite as often they do not.

In the case of a railroad stock, its dividend-paying

power depends upon the state of trade, the size of the crops, the character of the country through which the road runs, and also in no small degree upon the skill and honesty of its management. The rate of dividend may therefore change greatly from year to year. Take the case of even such a standard stock as that of the New York Central. From 1869 to 1884 it paid 8 per cent, but in 1885 it dropped to 3½ per cent; from 1886 to 1889 it paid 4 per cent; the next two years, 4½ per cent; in 1892, 5½ per cent; the next two years, 5 per cent; in 1895, 4¼ per cent; the next three years, 4 per cent; in 1899, 4¼ per cent; and in 1900 and 1901, 5 per cent.

It is the uncertainty which attends the business of the great corporations that makes their stocks so attractive for speculative purposes and their prices fluctuate so widely. It follows that if two 4-per-cent stocks sell at different prices, it may be because, first, there is a real difference in their prospects of future income, the earnings of one forging ahead while those of the other are decreasing; or, second, they are subject to differing influences that affect prices and not true values, for it may happen that two stocks of actual equal value may sell at different prices at the same time.

The average prices of the entire list may, for a considerable period, vary greatly from the true measures of value. Inasmuch as values depend on the prosperity or the reverse of the country, it ought to follow that Wall Street prices should correspond to the actual conditions of trade. This is always true if the period of comparison be made long enough, but it is not always the case for short periods, and sometimes not for a year at a time. For one thing, the stock-market is often ahead of the rest of the country, inasmuch as it strives to discount future conditions, so that an advance in stock values may precede a boom in business, and prices actually waver and decline by the time the activity in trade has reached its height.

But another cause may make one stock or group of stocks, or indeed the entire market, to swerve from the line of value. That cause is manipulation. There exists in Wall Street, as has been seen, a class of professional speculators who make the stock-market their life study and business. These men base their operations, or try to, on values as measured by income, but they study value so as to be able to buy at less than value, and then they work to sell at as much more than value as they can get. They employ every means in their power to make stocks attractive to investors and other possible buyers when they are long and want to sell; or to make the market appear doubtful or dangerous when they are short and want to buy. It has already been shown how large a part in the market manipulation plays; and for days, weeks, and sometimes for months, prices may represent manipulation more than they do intrinsic value.

Various attempts have been made to construct a scientific theory covering this whole subject of values and prices. The most satisfactory of these is that evolved by Charles W. Dow. His theory is based on the unmistakably sound principle that, in the long run, prices are controlled by values. He discovers three distinct movements of prices in progress so far as common stocks are concerned, namely:

Primary.—This is governed by intrinsic values, and is the most powerful of the three.

Secondary, or, as Mr. Dow calls it, the "swing."—This is governed by manipulation and by current events temporarily affecting actual values and the market machinery.

Tertiary.—The daily fluctuations.

Trifling causes, a mere rumor, the operations of room traders, may and often do control the price fluctuations of a day. The concerted operations of great operators may, and often do, control the price movement of weeks and months. But the primary movement, that based on value,

lasts the longest, and is ultimately the controlling factor in speculation as in investment.

The primary movement lasts generally from four to five years. Thus, there was the bull movement of 1877 to 1881, accompanying the resumption of specie payments and ending in the assassination of Garfield. This was followed by the bear movement of 1881 to 1885, including the panic of 1884. Then there was the bull movement of 1885 to 1889, when the sequence was broken by the Baring panic of 1890, followed quickly by an upward movement due to the large harvest of 1891 and a currency inflation. But the regular sequence was resumed in 1893, when the panic set in, the various effects of which continued until 1897. Then began the great McKinley boom, based on sound money, large crops, and heavy gold production, which has lasted five years. Now, in all of these movements the ultimate prices approached very closely to intrinsic values. But in every one of them there were long periods of time when the secondary movement—or swing—was at work, and prices varied greatly from values.

A bicycle rider starts out for a long trip over a road never before traveled by him. The actual distance is 20 miles, but his cyclometer at the end registers 30. This is due to the fact that he has not traveled in a straight line, but has gone from one side of the road to the other in an endless succession of curves in order to avoid teams and ruts. Then, at one point of the road he has missed his way, or has been maliciously misdirected, and thus went four miles before he discovered his mistake and turned back. In like manner prices travel through an endless succession of daily curves or fluctuations, and sometimes miss the road altogether, and, misled by manipulation, travel a long distance astray, but in the end they arrive at the true destination—value.

Thus, in the McKinley boom, the price of stocks, taking the whole period of the movement into view, corresponded

with the actual gain in value, but this advance in prices was accompanied by remarkable fluctuations. The boom began in August, 1896, when Wall Street's fear of Bryan's election on a free-silver platform came to an end, and it reached its climax at the time of the Northern Pacific corner and panic of May 9, 1901. During this period of nearly five years the lowest average price of 20 railroad stocks was less than 42, and the highest average price was nearly 118 on May 1, 1901, a difference of 76, the percentage of advance being 180. This upward movement corresponded very closely to every possible test of value. For instance, bank clearings in New York in this period increased 175 per cent.

But in the case of railroad stocks the best measure of value, as has already been indicated, is the surplus earnings after all expenses, taxes, and bond interest have been paid. The rest belongs to the stock. A calculation shows that the dividend-producing capacity of all the railroads of the United States in the period under review kept pace with this advance in prices. An analysis of the Interstate Commerce Commission reports for the years ending June 30, 1896 and 1900, shows that the net income applicable to dividends increased per mile from $492 to $1,180. The dividends actually paid increased from $484 to $725 per mile. Statistics covering exactly the period of the stock boom would show a still greater rate of increase. These figures are sufficient, however, to indicate how, in a period of five years, the line of price held true to the line of value.

The speculator, therefore, who studies most closely the conditions that create real value, and bases his operations on what this study of values reveals, is most likely to achieve success. A man died recently worth millions of dollars made through operations in copper, coffee, and ostrich-feathers—a strange combination, truly, but his success does not appear strange when it is known that he and

his partners made the most exhaustive study of these three products, so that there was nothing worth knowing about them that they did not know. The reason why so many lose money in Wall Street is that they do not base their operations on values, but on chance or "tips," and they are swept out of sight either by the daily fluctuations or by the still more enduring and more powerful "swings." The secondary and tertiary movements of prices far more than the primary are responsible for the failures of Wall Street.

In this very McKinley boom, when, as has been seen, the difference between the lowest and the highest prices was 76 points, prices actually traveled over a course of 271 points. There were 15 great movements and swings upward and 14 swings downward, the lines of prices continually doubling upon themselves. These swings were of varying durations. Some lasted only for days, and some for months. The period between April, 1899, and July, 1900, was one of continuous advance in the income capacity of the railroads, the increase being from $875 per mile in the fiscal year of 1899 to $1,180 in the fiscal year of 1900; and yet this was in the main a period of falling prices.

For more than a year, therefore, the line of price separated from the line of value. Overproduction of industrial securities, the sudden death of Ex-Governor Flower, then the bull leader, and the opening of the Boer War, involving the closing of the Transvaal mines, and the presidential election, were mainly responsible for this separation. But the influence of value reasserted itself as soon as the Street recovered from the chill of these events, and prices soon regained all the ground they had lost.

The investor can afford to base his operations entirely on value, but the speculator, to achieve success, must not only make a deep study of values, but also learn to calculate upon the force and duration of these market swings.

Even the student of value may make mistakes, for it should not be forgotten that speculation is always discounting the future, and is trading on values to be established rather than on values that are already established. This accounts for the familiar phenomenon of a stock declining on a piece of good news. That is because the advance has preceded the good news—in other words, discounted it. The insider, or the far-sighted outsider, has foreseen the favorable development and bought in advance of the news. Then when the thing develops and the news is announced he sells to realize his profit, thus causing a decline.

An analysis of the stock-market reveals a mysterious law of averages. The great primary movements based on values run in about equal periods of boom and depression. One upward sweep is followed by a downward sweep of about equal length.

There have been constructed in Wall Street elaborate charts or systems by which it is claimed the course of prices can be infallibly foretold. Men who use these systems as a substitute for close study and sound judgment of conditions are as much fools as the young nobleman who some months ago constructed a system for "breaking the bank" at Monte Carlo, and succeeded in only breaking himself. But not a few houses of high standing have charts showing the course of prices through a series of years, and use them as the man of business uses statistics. They have the advantage, for one thing, of showing at a glance whether prices are high or low as compared with preceding periods. It has been shown in the preceding chapter how in the course of ten years the sales of the bear periods have almost balanced the sales in the bull periods. A chart has been made of those ten years fashioned like a checkerboard, in which the bull periods have been left white and the bear periods made black, and it is remarkable that the number of months, almost the number of weeks, of advancing prices equals the number of months and weeks of

declining prices. Prices, therefore, have a tendency to return to the point whence they started. In the course of a year there is apt to be two bull and two bear periods, and the two highest points and the two lowest points are generally about six months apart.

"Wall Street," said Jay Gould, "is like the ocean. No one man can control it. It is full of eddies and currents. The thing to do is to watch them, to exercise a little common sense, and on the wave of speculation to come in on top."

CHAPTER V

THE STOCK COMPANY

If there were no stock companies there would be no stock-markets. The stock-certificate, representing as it does present or prospective income, is therefore the very corner-stone of Wall Street. A stock company is an association incorporated under the laws of some State, or by the direct act of some legislature, for the purpose of transacting business. It is composed of a number of persons whose share in its capital and whose interests in its profits are represented by shares of stock. The company gives each stockholder a certificate showing how many shares he owns.

In a legal sense the corporation is a person, with the same powers that a person possesses to act and to sue. Yet the persons who compose the corporations have, individually, no control over it or rights on the property it may own. A contract made with a corporation is not made with the stockholders individually. The corporation therefore is a person without personality. Hence the aphorism that "corporations have no souls."

Formerly nearly all business was conducted by individuals or by firms. Now, however, the tendency is to convert all lines of business into corporations. A company presents many points of advantage over a partnership, not the least being that it gives continuity to a business. It secures what is called a perpetual succession. A partnership usually expires by limitation in a certain num-

ber of years or by the death of a partner. A company goes on without a break. It may be difficult to divide a business at the expiration of a partnership or at the death of one of the partners, but the death of a shareholder causes no interruption to the business of a company, and the interest of the deceased is easily transferred to his heirs or sold in the market and the proceeds divided among them.

Another important advantage of a company is that it provides a convenient method of aggregating capital so as to be able to conduct business on a large scale. A man with $10,000 is incapable of any extended enterprise, but 100 men with $10,000 each represented in a stock company give a capital of $1,000,000. A firm with 100 partners would be a monstrosity; but a company with 100 or 1,000 stockholders is easily and effectively managed.

The control of a company is vested in a board of directors, usually elected annually by the stockholders. These directors commonly exercise absolute power, only such questions as a proposed increase in capital being submitted to a direct vote of the stockholders, and sometimes they do not even decide that. The board of directors is, in turn, controlled by an executive committee, and this committee is not infrequently controlled by one capitalist whose interest in the corporation is larger than that of the other stockholders. The annual meetings are usually attended only by a few holders of stocks. Elections are decided by proxies held in the name of one or two of the managing directors. The average stockholder carries his stock merely for the dividends, and leaves the burden of management entirely to the directors. The largest stockholder, as has been said, controls the corporation, even though his individual interest may be less than an actual majority of the stock. Recent events have shown, however, that absolute ownership of a majority of the shares is

essential to security of control.* A director of a great corporation whose securities are listed on the Stock Exchange is an influential individual, with sources of information and opportunities of manipulation denied to others. He is the true "insider" of the stock-market.

The capital stock of the company is divided into denominations of a certain specified value, as, for instance, $5, $10, $50, or $100. Shares of $100 each are the rule in the companies represented in the Stock Exchange, although there are notable exceptions, Reading stock, for instance, being divided into shares of $50 each.

Certificates of stock are engraved pieces of paper, signed usually by the president and the treasurer of the company, specifying that the holder whose name is written on the certificate is the owner of a certain number of shares. It is specified that the shares are transferable only on the books of the corporation in person or by attorney upon surrender of the certificate. On the back of the certificate is printed a blank providing for the transfer of the stock upon sale, the new owner being constituted an attorney for the purpose of transfer. In Wall Street, certifi-

* There has been more than one instance of the managers of a corporation, apparently in secure control, waking up suddenly to find that the majority of the stock has been bought by some other, and perhaps rival, interest. How to safeguard their control has therefore become a problem with directors. Claiming that "the day of proxy control is passed," some of the managers of great railroad and industrial corporations are scheming to make their control absolute and safe without being compelled to lock up their money in an actual ownership of a majority of the stock. They want to control the property and still be able to employ their capital in other enterprises or speculations. In the recent reorganization of the Chicago, Rock Island & Pacific Railroad a device of this kind was introduced. The control of the road was given to the preferred stock, which elects a majority of the directors. Capitalists owning one-half of the preferred stock, or $27,000,000, can therefore control a company whose aggregate common and preferred stock amounts to $150,000,000. This plan is contrary to the American principle of government by the majority, and it has been severely criticized, although it is upheld and accepted by a number of prominent capitalists.

cates of stock are usually made out for 100 shares, the bulk of the transactions in the Stock Exchange being in 100-share lots. A man may own 10,000 shares, but he will have them divided into 100 certificates of 100 shares each for convenience. Odd-share lots, as, for instance, certificates representing 23 shares, are at a manifest disadvantage in speculation.

The rules of the Stock Exchange require that certificates of stock, as well as every bond, must be printed from steel plates engraved in the best manner which will afford the amplest security against counterfeiting. There must be two steel plates, namely, a face-plate containing the vignettes and lettering of the description or promissory portion of the document, which should be printed in black or in black mixed with a color; and a tin plate from which should be made a printing in an antiphotographic color, so arranged as to underline important portions of the face printing. The two printings must be so made upon the paper that the combined effect of the whole, if photographed, would be a confused mass of lines and forms, so as to give security against counterfeiting by scientific or other processes. The Exchange requires a distinctive plate for 100-share certificates, so that they may be readily distinguished from certificates representing other amounts of stock. The Exchange also requires that the engraving shall be done by some concern approved by the governing committee.

In the formation of a new company, the "promoter" comes first. Many imagine the promoter to be a recent development of Wall Street. He has indeed enjoyed special prominence in the last few years, because of the immense number of new companies organized, but he has existed in one form or another for centuries. Balzac made a promoter the chief character in his comedy "Mercadet," first produced in 1851.

Of course, the history of no two companies is exactly

the same. But if a great industrial company is proposed, the promoter may, in general, be said to follow one of two lines of procedure. He may interest the different manufacturers in a certain line of trade and induce them to combine, and if successful in forming a combination, he may be rewarded with a large interest in the new company. Or, being satisfied that such a combination would be profitable, he may obtain options for the purchase of the different plants. An option is the payment of a certain sum of money for the right to buy a plant or business, or any other thing of value, within a specified time and at a specified figure. If the option is not used within the time limit the promoter loses the sum he paid for it.

Whatever line of procedure is adopted, the next step is to secure the backing of some banking-house, the larger and more influential the better. The banker looks into the scheme carefully, and with the aid of experts and accountants examines the different plants, surveys the proposed field of operations, and ascertains the present and prospective demand for the product to be marketed. If satisfied that the scheme is a feasible one, the banker undertakes to underwrite it—in other words, to supply the money necessary to effect the combination, organize the company, and to market the securities.

At this stage the corporation lawyer is called in. He attends to all the legal matters involved in the transaction, advises as to the State the company should be incorporated in, draws up the necessary papers, and sees that no laws are violated and that every legal requirement is observed. The plan of the company has probably been laid out by the promoter, and is now adopted as amended by the banker and his lawyer. The amount of capital is determined, and the division of capital into stocks and bonds is fixed upon.

Then comes the underwriting syndicate. The banker may be unable or unwilling to provide all the immediate

cash required and assume all the risk, so he calls in other bankers and capitalists and a syndicate is formed. The company having been incorporated, it is likely that after the persons originally concerned in its organization have taken a proportion of the stock, a considerable amount, and perhaps nearly all, remains to be sold to the public. The banker, if his reputation is high and his connections wide, is usually able to attend to this. His indorsement may commend the securities to investors. But sometimes the services of a stock-market manipulator are required in order to prepare the market to absorb the new supply of stocks and bonds. In order to market these, it is necessary to have them listed in the Stock Exchange. Before this can be done they are probably traded in on the curb. The new securities now get into the hands of the broker, pass through the Stock Clearing-House, are hypothecated for loans at the banks, and finally reach the investor, who locks them up in his safe-deposit vault and waits for the interest and dividends.

The progress of a certificate of stock from the producer to the consumer, from the organizer to the investor, may be summed up as follows:

1. The promoter.
2. The banker.
3. The corporation lawyer.
4. The underwriting syndicate.
5. The incorporation.
6. Issue of stock certificates.
7. The stock-market manipulator.
8. The curb market.
9. Listed on the Stock Exchange.
10. The stock-broker.
11. Hypothecated for loans at the bank.
12. The investor.

In the case of railroad, gas, or other companies requiring public franchises other steps have to be taken. To

build a railroad, the sanction of commissions, courts, and legislatures must be obtained.

Before 1892 the majority of companies were incorporated in New York, but since then New Jersey has incorporated more than any other State. Nearly one-half of all the industrial companies represented in the Stock Exchange have New Jersey charters, including the greatest corporation ever formed, namely, the United States Steel Corporation, with a capital of $1,018,000,000 stock and $300,000,000 of bonds. The Northern Securities Company, with $400,000,000 capital stock, controlling other companies having $642,000,000 of outstanding bonds, is also a New Jersey corporation. The laws of that State are exceedingly liberal to corporations. The New Jersey company is required to maintain an office within the State, this office to contain a stock transfer book and a stock ledger, and to keep open in business hours for the transfer of stock; and the annual meetings of stockholders must be held there. But the company may do a business in any part of the world. Its directors may have their office in Wall Street, and its factories may be in Boston and San Francisco.

Moreover, the articles of incorporation, if well drawn by a competent lawyer, can give the company power to engage in almost every line of business. It may manufacture carpet-tacks, finance trusts, and operate railroads all at once. Moreover, if nothing is said to the contrary in the incorporation papers, the company becomes a perpetual corporation.

If stock is to be issued for plants or other property, the promoters can put any value they please upon the property, and authorize the issue of stock in payment; and the State of New Jersey accepts this valuation without question. This makes stock watering easy. Only three incorporators are needed, and two of these may be dummies, and the interest of all three in the concern may not be more than

$1,000. On payment of an incorporation fee, and with an initial investment of only $1,000, three men can in one day incorporate a company in New Jersey with powers to do almost anything and everything under the sun. It is not surprising that New Jersey has grown rich from the incorporation of new companies.

James B. Dill, the well-known lawyer, who is noted for the number of companies he has had incorporated, strongly recommended, in a recent address in Boston, the passage of a law by Congress under which companies could obtain a national incorporation, securing certain valuable rights from Congress over State-incorporated companies, but also being subject to a certain amount of governmental supervision. This he advocated as meeting, in large measure, the problem of the trusts, most of which are now organized under the laws of New Jersey, which permit a company to own the stocks of other companies.

A trust, in the true sense of the word, is a combination of companies, the majority stockholders of which assign their shares to a certain number of trustees, giving them an irrevocable power of attorney. This effective form of combination has gone out of existence, being illegal under the Sherman Antitrust law. The Standard Oil Corporation used to be a trust of this kind, but has now become a regularly organized company.

The word trust now has a wider significance. Prof. J. F. Jenks has described a trust as "a combination of manufacturing corporations with so great capital and power as to be considered by the public to have become a menace to its welfare and to have temporarily, at least, considerable monopolistic power."

A more precise definition is that adopted for the purpose of the twelfth census, and which may therefore be accepted as an official definition. This defines a trust to be a company organized to own and control a large number of factories or mills which were formerly independent of each

other, and whose business extends over the entire country; or else a company organized simply for the purpose of owning and holding the stocks of other corporations, but not directly owning the plants or carrying on the business of manufacturing. Holding companies are not by any means a new thing. There are several that have been in existence for many years, but this scheme of combination has been brought into special prominence by the recent organization of the Northern Securities Company for the purpose of holding the stocks of the Great Northern and Northern Pacific Railroads. The legality of this combination is now in the course of judicial determination.

Companies have been organized for every conceivable purpose. Besides the two main Wall Street divisions of railroads and industrials, there are several subdivisions, as, for instance, franchise companies, including street-railways or tractions, telegraph, gas, etc.; manufacturing companies; mining companies; and finance and holding companies. Admitted to dealings in the Stock Exchange are the securities of steam, electric, and cable railroads, coal, iron, copper, express, telegraph, telephone, electric-light and power, gas, mining, chemical, bicycle, cotton-oil, spirits, tobacco, snuff, sugar, paper, match, ice, linseed-oil, pump, rope, envelope, rubber, dry-goods, land improvement, dock, steamship, marble, fuel, locomotive, woolen, fireworks, whisky, biscuit, lead, salt, zinc, leather, pine, bank-note, flour, corn-products, and ferry companies. In the outside market there are dealings in other kinds of companies, including can, refrigerating, storage-battery, lead-reduction, securities, carriage, enameling, elevator, baking-powder, potteries, coke, writing-paper, thread, type, rubber-tire, electric-boat, signal, monotype, bread, stevedoring, realty, car-heating, coupler, and typewriter. Speculation companies have also been formed, and some time ago a corporation was organized by creditors to take over the business of an embarrassed merchant.

In the organization of companies several evils have developed, the most important being "stock watering." This is the very felicitous Wall Street term for fictitious capitalization. It has been said by bankers who ought to know that most of the large industrial companies are so vastly overcapitalized that the common stock represents "water" or no actual investment, and that only the preferred stock represents actual investment. This assertion seems to be confirmed by Bulletin 122 of the last census. This gives the amount of stocks and bonds actually issued by 183 industrial corporations, covered by its report, as $3,085,200,868, while the true value of the capital invested is only $1,458,522,573. The preferred stock of these companies was $1,066,525,963, slightly less than the true value.

In capitalizing a new combination the usual rule is to capitalize the earning capacity rather than the money actually invested in the plant. For instance, if the actual cost of a plant was $1,000,000, while its earning capacity is $300,000 a year, it might not be capitalized at cost, which would yield 30 per cent dividends, but at, say, $3,000,000, which would yield 10 per cent. It may be said in justification that, while the plant may have cost only $1,000,000, its true value should be measured not by what it cost, but by what it earns, and that the capitalization of $3,000,000 therefore represents value, not water.

But in many instances the plant is capitalized not on the basis of what it earns, but what it might, could, or should earn, and that in addition the capitalization is swelled by the bonuses demanded by the promoters and bankers. James B. Dill, in writing on this subject, has shown how plants worth, say, $5,000,000 may be capitalized for $30,000,000, the difference representing in no sense of the word true value, but simply the water injected into the enterprise, just as the dishonest dairyman waters his milk. Then, says Mr. Dill, the promoter and the banker sell their stock for what it will bring, and the company is left in the

hands of stockholders with immense charges to pay on watered stock. Mr. Dill says that this evil could be prevented by a law like that existing in England, which prohibits any promoter or company to advertise the capital stock for sale without stating the actual amount paid into the company.

The industrial commission appointed by President McKinley recommended that all the States enact laws to prevent stock watering like those existing in Massachusetts. It was shown by evidence produced before this commission that some trusts have been financed on this basis: For every $10 of cash or tangible property secured $60 of stock was issued, representing $15 to the promoter, $20 to the seller entering the combination, and $25 to the underwriting syndicate.

It has already been indicated that there are two kinds of stock, preferred and common. In England there are also founder shares, vendor shares, deferred shares, and debenture shares, but these are practically unknown in this country. Preferred stock has a fixed rate of dividend attached to it, which must be paid before the common stockholders can receive anything. Such dividends may be cumulative or non-cumulative. If cumulative, any dividend not paid this year must be paid out of the profits of any future year. The dividends accumulate until paid. Preferred stock differs from a bond in that it is not secured by a mortgage on the property, while the holder, in the United States, generally has a voice and vote in the management. The preferred stockholder is thus not a creditor, but a preferred partner in the concern. The common stock is entitled to all the earnings after the interest on the bonds and the dividends on the preferred stocks have been paid. Its rate of dividend thus depends on the profits of the company. The common stock is therefore the speculative commodity of the Street. Preferred stock is as a rule bought for investment, and common stock for specu-

lation. Many companies have only common stock, and common stock may become so steadily a dividend payer, and thus so valuable, that it enters into the class of investment securities and is no longer speculative.

Bonds represent the funded debt of a company, and are usually secured by some mortgage on its property. They are of various kinds. The first-mortgage bond usually stands highest, in that it has a first lien on the property covered by the mortgage. In some cases, however, prior-lien bonds are issued, and these, as their name indicates, take precedence. Second- and third-mortgage bonds take rank after the first. Consolidated bonds is a name usually given for bonds issued in place of other bonds, the various mortgages being consolidated. This operation is generally the result of a reorganization.

There are various classes of bonds whose names indicate the character of the security pledged for their payment. Thus, equipment bonds are secured by a mortgage on the rolling-stock of a railroad. Land-grant bonds are secured by lands owned by the railroad, and are redeemed by the proceeds of the sale of the lands. Collateral bonds are secured by pledges of stocks and bonds of other companies held by the corporation issuing the bonds. Collateral bonds have become very prominent in the Street, especially in the last few years. A railroad buys control of a connecting or rival line, and pays for the same by issuing bonds secured by the securities of the line thus acquired. Income bonds are virtually unsecured, and pay interest only when earned. Debenture bonds are very common in England, and are becoming more so in this country. They are practically unsecured pledges to pay. They are similar in principle to the single-named paper of a merchant, discounted by a bank. Convertible bonds are bonds which can be converted into some other form of security, usually stocks.

Registered bonds are bonds recorded on the books of

the corporation in the names of their holders to whom the interest is sent. Coupon bonds are bonds to which are attached dated certificates representing the interest due on the bond at the regular periods of payment. These may be cut off from the bond and the interest collected through the bank the same as checks. If not paid they may be collected by suit, the same as the principal.

In the case of the default in interest the bondholders can foreclose the mortgage. The legal forms gone through are generally the same as those in foreclosing the mortgage on a house. There is, however, this practical difference: the house is actually sold to satisfy the debt. In the case of a railroad there is a reorganization—that is to say, a general rearrangement of the capitalization on a basis on which the company can pay at least its expenses and fixed charges. In this reorganization, the first-mortgage bondholders enjoying the highest security get the best terms, while the stockholders, to save their interest from being entirely wiped out, are usually subjected to an assessment; they are compelled to supply most or all of the needed additional capital.

The great bulk of the bonds traded in in Wall Street are issued by railroads. Industrial companies, however, are beginning to issue them in considerable amount; and the greatest of them is, at the time this is written, preparing to convert a part of its preferred stock into bonds.

Out of the gross earnings of the company is first paid the cost of its operation. Then must be paid the fixed charges which are the interest on its bonds in the order of their standing. Out of the surplus must be paid, first, the dividends on the preferred stock, if there is any. What remains is applicable to the payment of dividends on the common stock, but the directors may out of this sum use part or all in making betterments or extensions. This payment is usually in such a case charged to operating expenses. Commonly, however, betterments and extensions

are paid for by new issues of stocks and bonds, it being considered legitimate to capitalize improvements. Dividends are sometimes paid when not actually earned. The earnings for this quarter may be less than the usual dividend, yet it may be declared either because the earnings of the preceding quarter were larger, or because there is good reason to believe that the earnings of the succeeding quarter will be more, and it is deemed advisable to maintain the same rate. But where the dividends of a whole year are larger than the earnings applicable to dividends, it is clear that a debt has been created for the purpose, and it is needless to say that an increase in capitalization, or the creating of a floating debt, for the purpose of continuing the payment of dividends and thus sustaining the market price of the stock, is illegitimate finance.

CHAPTER VI

LISTING OF SECURITIES

ACCORDING to an English authority, the United States is the richest nation of the world, its wealth being estimated at $81,000,000,000. Nearly one-fifth of this sum is represented by the securities admitted to dealings in the Stock Exchange. In 1868 it was computed that the stocks and

Listed Stocks and Bonds

	Number.	Amount.
Railroad stocks	173	$4,332,965,765
Manufacturing and industrial stocks	46	1,648,154,900
Express-company stocks	4	48,000,000
Street-railway stocks	16	193,297,700
Miscellaneous stocks	19	125,945,500
Coal and iron stocks	12	75,240,400
Gas and electric-light stocks	18	217,685,863
Telegraph and telephone stocks	10	229,053,125
Bank stocks	63	78,572,700
Trust-company stocks	5	500,000,000
Special list (stocks and bonds)	28	58,473,500
City and county stocks and bonds	52	113,515,179
Railroad bonds	621	4,797,983,000
Street-railway bonds	30	184,184,000
United States bonds	6	957,471,060
Foreign government securities	3	119,528,600
State bonds	15	75,368,522
Gas and electric-light bonds	32	149,267,500
Miscellaneous bonds	22	72,306,000
Manufacturing and industrial bonds	19	231,476,000
Coal and iron bonds	15	23,548,000
Telegraph and telephone bonds	9	54,829,000
Total	1,218	$13,791,866,317

bonds traded in at the then existing two boards had a par value of $3,000,000,000. To-day, only a generation later, the par value of the stocks and bonds admitted to the listed and unlisted departments of the Stock Exchange aggregates five times as much—a striking proof of the marvelous growth of the country in that time, and of the rapid conversion of all forms of business into stock companies.

To list a stock is to have it admitted to the right of being dealt in on the Exchange. No stock or bond can be bought or sold there which has not first been admitted to either the listed or unlisted departments.

The table on page 81 is a complete statement of the number and amounts (par value) of stocks and bonds regularly listed in the Stock Exchange on January 30, 1902.

In the unlisted department of the Exchange there are 159 different stocks and bonds admitted to dealings. The total par value of the outstanding securities of the 68 most prominent of these is as follows:

Unlisted Securities

	Number.	Amount.
Railroad stocks	10	$43,073,100
Surface railroad stocks and bonds (N. Y.)	8	61,598,000
Manufacturing and industrial stocks	43	929,646,945
Mining stocks	1	153,887,900
Coal and iron stocks	2	11,462,000
Gas stocks	3	20,051,700
Telephone stocks	1	7,500,000
Total	68	$1,227,219,645

Total Listed and Unlisted Securities

Listed	$13,791,866,317
Unlisted	1,227,219,645
Grand total	15,019,085,962
Estimated amount in 1868	3,000,000,000

Practically every dollar of this represents American investments.*

The securities admitted to trading in the London Stock Exchange in 1901 had a par value of more than $19,000,000,000, not counting about $15,000,000,000 of foreign Government loans. There were quotations in London of nearly 4,000 different securities, representing nearly every country on the globe. On the 18th of January, 1902, there were actual sales of or bids for 7 Canadian railway securities, 24 American "rails," 11 other foreign rails, 7 telegraph and telephone companies, 27 foreign government securities, including those of Argentina, Brazil, Bulgaria, Chile, China, Egypt, France, Germany, Greece, Hungary, Italy, Japan, Mexico, Russia, Spain, Turkey, and Uruguay; thirty-three British rails, 5 mining stocks, 13 South African exploration stocks, 101 South African gold-mining stocks, 14 Rhodesian stocks, 20 West Australian mining and land stocks, 13 Indian rails, 11 American railway bonds, 19 bank stocks, 13 brewery stocks, 8 canal stocks, 64 commercial and industrial securities, and 32 miscellaneous. Immense as is the Wall Street market, it is thus seen how much wider in scope is that of London.

The New York Stock Exchange does not guarantee the value of any security which it admits to the privileges of its floor. It neither recommends nor condemns. Each investor must decide for himself the value of the securities which he may seek to buy. The Exchange affords an open and continuous market, but makes no attempt to regulate either its prices, so as to make them conform strictly to intrinsic value, or the management of corporations whose

* In August, 1902, the Stock Exchange listed Russian government bonds to the amount of 2,310,000,000 rubles. This is the beginning, evidently, of a general listing of foreign government securities. English consols are already traded in in Wall Street, and certificates representing them are not unlikely to be listed. It will not be long, therefore, before New York's stock-market, like New York's money market, will be international in scope.

stocks and bonds may be listed on its floor. But the Exchange has certain strict rules governing the admission of securities to its market, and investors may rely upon it that these rules are rigidly enforced. Whether the Exchange goes far enough in its regulations for the listing of securities is a question of some dispute, but as far as it goes it is scrupulous in enforcement.

The Exchange divides its market into two departments, listed and unlisted. The former is by far the more important, and the rules that must be complied with in order to secure admission to it are worthy of some study, for there is no other branch of Wall Street mechanism in regard to which there is more popular misconception than this. It is important for the investor to know what safeguards the Exchange throws around its market. It will be found that they are numerous.

The constitution of the Exchange provides that there shall be a committee on stock lists to consist of five members, to which shall be referred all applications for placing securities on the list. It is further provided that all securities placed upon the list must be with the consent of the Governing Committee, and only after report made by the Stock List Committee to the Governing Committee, "with a full statement of capital, number of shares, resources, etc." Thus a security to be admitted to the list must pass the scrutiny of two committees, one of them the supreme governing power of the Exchange.

The Stock List Committee has, under this constitutional provision, drawn up a definite statement of just what it requires of all applications to list. It is provided in the case of a railroad company that there shall be filed a statement of the location and description of the property, and, when possible, also a map thereof. This statement should give the title of the company, when it was organized, and by what authority, the route of road, the miles of road completed and in operation, contemplated extensions, equip-

ment, liabilities and assets, earnings, amount and description of mortgage lien or other indebtedness. Also a statement of, and liability for, any leases guaranteed, rentals or car trusts and terms of payment thereof. Also the number of shares of capital stock authorized and its par value, a list of officers and directors, the office of the company, the transfer office and registrar, together with their names.

In the case of bonds only issues upon completed mileage will be listed. The application must state the amount authorized, the date of issue and maturity, the names of trustees, the par value, the rate of interest, whether subject to earlier redemption by sinking-funds or otherwise, and whether convertible into other forms. A copy of the mortgage duly certified is required, and proof that the mortgage has been duly recorded is insisted upon. The application must be accompanied by a balance-sheet and statement of income account of recent date.

In the case of a reorganized company, the Exchange requires a complete financial statement for a period of at least one year prior to reorganization, the receipts and expenditures in detail, a balance-sheet, and a description of the new security issued. This requirement was first made in February, 1895, and materially strengthened the rules for listing. The Exchange recommends that a trust company should be appointed as a trustee of each mortgage or trust deed. When an industrial or manufacturing company applies for the listing of its securities, it must submit the opinion of counsel that it has been legally organized and its securities legally issued. If the company is the result of a consolidation—in other words, a trust—a statement must be submitted of the financial and physical condition of the constituent companies; a full description of the real, personal, and leased property; proof that real estate is free and clear except as to stated liens; a report of responsible expert accountants showing results of busi-

ness each year for at least two consecutive years, if possible; a balance-sheet; statement of the powers of the directors under the charter; an agreement that the company will not dispose of its stated interest in the constituent companies except on direct authorization of stockholders; and that it will publish at least once in each year a properly detailed statement of its income and expenditures of the preceding year, and also a balance-sheet at the end of its last fiscal year. The Exchange requires that all active stocks must be registered at some satisfactory institution, and the registrar must state the amount of stock registered at the time of application.

Having made these and other requirements, the Stock List Committee makes the following recommendation:

"The Exchange recommends to the various corporations whose securities are here dealt in, that they shall print, publish, and distribute to stockholders, *at least fifteen days prior to annual meetings*, a full report of their operations during the preceding fiscal year; together with complete and detailed statements of all income and expenditures, and a balance-sheet showing their financial condition at the close of the given period. The Exchange requests that stockholders of the several corporations take such action as may be necessary for the accomplishment of this recommendation."

While not mandatory, this recommendation has almost the force of law.

CHAPTER VII

THE UNLISTED DEPARTMENT

Many companies, especially the industrial, are unable or unwilling to comply with all the requirements necessary for the listing of securities. But their promoters and officers are eager for a market for their securities, and there may be an equally eager demand for them. If the Exchange did not provide such a market the securities would be traded in on the curb or in another Exchange. The Stock Exchange therefore, in 1885, established what is known as the "Unlisted Department." There had been at that time a severe depreciation in the values of railroad and coal stocks, so that the attention of investors was turned to other classes of securities. Industrial and manufacturing stocks came to the front, and were actively traded in outside of the Exchange, and to secure the business for its members and to give to it the security of a regulated market the Exchange created this new department of unlisted securities. Its business developed rapidly, as railroad stocks were then unpopular, though now they have recovered their preeminence in the market.

Unlisted stocks are traded in on the Exchange under practically the same conditions as the listed securities. The tape records their sales and prices the same as those of the listed, and, so far as the general public is concerned, it rarely takes account of whether the security is in one class or the other, although some of the newspapers, to indicate

the distinction between them, put an asterisk before the name of each unlisted stock.

There is, in fact, a wide difference between listed and unlisted securities. The former have a much higher standing at the banks, and when the owner or broker borrows money on securities he finds that the listed is accepted as much more valuable collateral. For this reason most corporations prefer to put their securities on the regular list, notwithstanding the stricter requirements. Moreover, the transactions in unlisted securities are less than one-fifth of those in the listed. In 1901 there were 210,113,239 shares of stocks and $828,412,300 par value of listed bonds traded in, while in the unlisted class the transactions were 42,413,-108 shares of stock and $96,508,000 par value of bonds.

That the Stock Exchange requirements for admission to the unlisted department are much less strict than its requirements for listed is shown by the blank on the opposite page, which must be filled out by the company applying for such admission.

With the rapid development of industrial companies in the past ten years the speculation in unlisted stocks has largely increased, and thus has arisen a demand for more information regarding the financial conditions and earnings of these companies, some of which have issued no statement of earnings in years. For instance, the American Sugar Refineries Company, whose common stock is generally the most active security of the unlisted department, its sales in 1901 having exceeded 8,000,000 shares, has issued no such statement in ten years; yet it has paid from 6 to 21½ per cent a year in dividends all that time. The Standard Oil Company is another of the so-called "blind-pool" corporations, in which shareholders are furnished with little or no information regarding its affairs. But this stock, although not traded in in either department of the Exchange, is one of the two or three highest priced stocks in the United States, and has paid in five years and

NEW YORK STOCK EXCHANGE

COMMITTEE ON UNLISTED SECURITIES

In re Applications for Quotation in Unlisted Department

Name of corporation,

Incorporated under the laws of the State of

Date of Incorporation,

Authorized Capital,

Preferred (Cumulative or Non-Cumulative, %), $

State nature of preference of Preferred over Common Stock in regard to voting, dividends, and assets.

Common,

Amount of each outstanding,

Par value of shares, Preferred, $ each.

" " " Common, $ each.

Full paid.

Personal liability.

Transfer Agent, New York,

" " elsewhere,

Registrar, New York,

" elsewhere,

State if certificates issued elsewhere can be discharged in New York.

State how generally stock is distributed, give about number of stockholders, and that the revenue (on new issues) has been paid.

Bonded indebtedness { Give particulars—Date of maturity. Rate of interest. Amount authorized. Amount outstanding.

Bonded indebtedness of constituent companies (with particulars as above).

State if constituent companies are owned in fee; if not, give amounts of various constituent companies' stocks owned, also amount authorized.

Balance-sheet last issued, if of recent date.

Give history of corporation, and if composed of old companies; name them; list of plants, buildings, acreage and where located; nature of business conducted.

Board of Directors, give address (city only). If in classes, show them.

List of Officers.

Furnish sample of each kind of stock-certificates.

Letter accepting Transfer Agency from Transfer Agent.

" from Registrar accepting office.

" from Counsel in re legality of incorporation.

Certified copy of Charter and By-Laws.

(Please furnish four copies of application; only one need be signed.)

a quarter $202,000,000, or more than double the par value of its outstanding capital stock. Other companies far less substantial than these follow their example in withholding information of their operations from the public.

Publicity has therefore become a popular cry. It is urged as a check upon such evils as attend the creation of industrial corporations of immense capital and power, and it may be of watered stock. President Roosevelt in his last annual message said:

"The first essential in determining how to deal with the great industrial combinations is knowledge of the facts —publicity. In the interest of the public, the Government should have the right to inspect and examine the workings of the great corporations engaged in interstate business. Publicity is the only sure remedy which we can now invoke. What further remedies are needed in the way of governmental regulation, or taxation, can only be determined after publicity has been obtained, by process of law, and in the course of administration. The first requisite is knowledge, full and complete—knowledge which may be made public to the world."

Bishop Potter, looking at the subject from the standpoint of a religious teacher, in a recent address urged that corporations should be compelled to make monthly reports attested by oath; should be subject to periodical investigations by Government experts; and their officials be prohibited under heavy penalties from speculating in the stocks of their own companies either directly or indirectly.

CHAPTER VIII

THE NEW YORK STOCK EXCHANGE

It has been seen that with the creation of new forms of indebtedness, either in the shape of national, State, and city bonds, or in the shape of stocks and bonds of banks, railroads and industrial companies, there has naturally developed a market for the buying and selling of these securities. Wherever this stock-market becomes of large extent it is necessary to establish a stock exchange. Stock exchanges now exist in every large city of Europe and America.

The New York Stock Exchange is an unincorporated association of 1,100 members, organized for the purpose of supplying a continuous and regulated market for the buying and selling of stocks and bonds. "Its objects," says the new constitution adopted in March, 1902, "shall be to furnish exchange rooms and other facilities for the convenient transaction of their business by its members as brokers; to maintain high standards of commercial honor and integrity among its members; and to promote and inculcate just and equitable principles of trade and business."

The Exchange faithfully carries these objects into effect. No other financial institution or corporation is better managed. It has evolved an almost perfect mechanism for the conduct of its vast business. Whatever may justly be said of the methods of the stock-market, its manipulation, tricks, and deals, no serious criticism can be made of the

Stock Exchange, which insists upon honorable dealings between its members and between its members and their customers. A member guilty of fraud is expelled. A member unable to fulfil his contracts is suspended. The Exchange enforces strictly its elaborate laws for the listing of securities and for the sale and delivery of stocks. It has been urged that the Exchange might go a step or two further, and use its power to strike from the list the security of every company whose management discloses crookedness of any kind or refuses proper information of its financial condition, and to visit with some form of punishment every form of manipulation. But it is said in reply that it now goes as far in that direction as it feels that it has the right to go, and, moreover, that it establishes almost every year some new safeguard against dishonest and reckless speculation. There is certainly a limit to its powers and responsibilities.

John R. Dos Passos, who is an acknowledged authority on the law of Wall Street, holds that it seems entirely reasonable "to confine and limit the jurisdiction of the Stock Exchange to those matters which arise between its members in the course of their business with each other as brokers; otherwise its judicial powers might be extended to embrace every affair of human life, which was never intended, and which the law would not permit."

In 1869, after the consolidation of the Stock Exchange, the Open Board of Brokers, and the Government Bond Department, the membership of the united body was 1,060, but ten years later 40 additional memberships were created and sold to defray the cost of an enlargement of the Board room. Since then there has been no increase in membership, and the constitution provides that there shall be no increase except by the action of the Governing Committee subject to approval by a majority of the members.

While located in New York, the Exchange is actually a national institution. There are stock exchanges in

Philadelphia, Boston, Pittsburg, Chicago, St. Louis, and other cities, but these are local institutions, and their markets restricted for the most part to dealings in local stocks. But the New York Stock Exchange deals in the securities of the entire nation, and its membership represents many different parts of the country. There were, in 1901, 119 out-of-town members, including 26 of Philadelphia, 26 of Chicago, and 25 of Boston. St. Louis, Baltimore, St. Paul, Buffalo, Rochester, Milwaukee, Kansas City, Detroit, Richmond, Washington, and other cities are represented in the membership.

Many of the members maintain branch offices. These numbered 246, one-half of them being in New York city itself, but 136 were scattered among 50 different cities and towns in the United States and Canada. There is a branch house as far West as Denver, and another as far North as Toronto. One firm maintains as many as 9 branch offices.

The 1,100 members of the Exchange represent 448 firms, in which there are 1,314 partners. Usually a firm is content to have only 1 partner in the Exchange, but there are many which have 2 or 3, and there is one firm of 6 partners, every one of whom is a member of the Board.

It does not follow that because there are 1,100 members they are all brokers. As a matter of fact, only a part of them are. Among the members are such great capitalists as John D. Rockefeller, William Rockefeller, George J. Gould, Edwin Gould, Frank J. Gould, Howard Gould, E. H. Harriman, and Russell Sage, men who never execute an order on the floor, and who rarely, if ever, are seen there. These men employ brokers. They are principals. Membership in the Exchange gives them the advantage of a lower rate of commission than they could command as outsiders.

Their memberships represent to each of them in interest on market price of seats and annual dues an expenditure of $3,250 a year, but they undoubtedly save more

than that in commissions. There are others, like W. E. Connor, formerly active brokers, but who now have joined the class of principals. There are other members, heads of large banking or commission houses, who are seldom seen on the floor, but intrust the interests of their firms there to junior partners. Moreover, many of the most prominent men in the Street are not members of the Exchange. J. Pierpont Morgan is not a member, but his son of the same name is. Although James R. Keene is one of the most noted stock operators in the Street, he is not a member.

It is estimated that the members and their employees form an army of at least 15,000 workers. There are many members who maintain no offices of their own but clear their business through other members. There are a number of houses which confine their business to clearing for this class of members. Then there are other members who serve as brokers for brokers. They constitute the large class, estimated to number 250, of what are called "two-dollar brokers"—that is to say, they execute orders for other brokers at the low but legal rate of $2 per 100 shares. The same business would cost an outsider $12.50.

There is another class of members who are known as "Room traders." These do not execute orders for others, but buy and sell for their own account alone. Most brokers speculate for their own account to some extent, although many make it a rule to confine themselves to a strict commission business. But Room traders are professional speculators, who act at the same time as principals and agents—that is to say, they execute their own orders. There are between 50 and 100 of these Room traders who enjoy the privilege of being all the time on the floor of the Board room, and thus able to take advantage at once of every opening. They know the prices even before they are recorded on the tape, and they are able to join in every upward movement the moment it begins, and to abandon

it the moment it shows signs of wavering. They are in and out of the market perhaps a dozen times a day. They constitute an important element in it.

There is still another class of members. They are "Specialists"—that is, brokers who make a specialty of one or two or three securities alone, these securities being usually of the investment class, requiring close and expert attention. The business of these specialists is also largely with other brokers. It will thus be seen that the number of brokers who act directly as agents for outside traders forms less than one-half of the Stock Exchange membership. The average attendance on the floor of the Exchange is between 500 and 600.

Membership in the Exchange being limited to 1,100, admission is obtainable only when there is a vacancy. Membership is secured through purchase of the "seat" of a deceased or insolvent member, or of some one who desires to retire from business. The application is passed upon by a Committee on Admissions composed of 15 members. This committee has full power of election, but there must be 10 affirmative votes. The applicant must be of legal age and a citizen. He must pay an initiation fee of $1,000 in addition to the cost of his seat. No certificate or other evidence of membership is issued.

The word "seat" as applied to a membership is an inheritance of the old days when the brokers had individual seats in the Board room, like Senators in a Senate chamber. There are no such seats now in the Board room, and very few chairs of any kind. The brokers are too busy to sit down. Every member has the right to transfer his membership subject to the approval of the Committee on Memberships. With that approval he may sell it. If he dies, the committee sells it and pays the proceeds to his heirs after payment of any outstanding claims of the Exchange or of the members thereof. If he fails, the seat is sold for the benefit of his creditors, but members

of the Exchange having claims upon him have a first lien upon it.

Membership in the Exchange is an asset of large value. The price of seats varies, like the prices of stocks, although not so volatile. The price is, however, a fair indication of the activity of the stock-market in any given year. There are a few old members, who joined thirty-five or forty years ago, who paid only $500 for their seats. In 1871 seats were sold as low as $2,750. In the boom year of 1882 the price reached $32,500. Two years later, in the panic, the price fell to $20,000. The next year, however, it reached $34,000, and this remained the highest price for many years. In the panic of 1893 memberships were quoted at $15,250, and in 1896 as low as $13,000. Since then there has been a rapid advance, until in the last week of 1901 sales were made at $80,000. At this price the total value of Stock Exchange seats amounted to $88,000,000. In 1902 the price fell to $60,000, and later advanced to $70,000. To the price of the seat must be added the initiation fee. The number of membership transfers varies from 40 to 100 a year. One reason for the advance in price in the last few years, apart from the great growth in business, is the demand from out-of-town brokers seeking entrance in the Exchange, and the demand from rich men in behalf of their sons whom they wish to set up in a genteel business.

Something more than wealth, however, is required in the applicant. He must be of good business reputation, and must have no alliances that would bring discredit on the Exchange. To a member who formed a partnership with a man guilty of dishonorable practises on Black Friday was given several years ago the alternative of giving up the partnership or his seat in the Exchange. He gave up the partnership. A member who fails must immediately inform the president, and is suspended until such time as he is able to make a satisfactory settlement with his creditors.

Then to secure reinstatement he must be balloted for under the same conditions as apply to a new applicant, except that if six successive ballots are unfavorable to him he has the right of appeal to the Governing Committee. The insolvent member, however, must settle with his creditors within one year, or his seat will be sold, though the Governing Committee may extend the time. If the applicant for membership or for reinstatement in order to secure favorable action makes a misstatement upon a material point, he will be subject to expulsion. If his failure has been caused by reckless or unbusinesslike trading, he may be declared ineligible for reinstatement.

A two-thirds vote is required to expel a member found guilty of fraud. Prior to 1865 the Exchange expelled three members for fraud—one for deceiving a customer as to the price of a stock, another for forgery, and a third for issuing a worthless check. Since 1874 there have been nine expulsions—three in 1896 for "bucket-shopping" the orders of customers (a term that will be explained in another place), and the others for various forms of fraud. The most famous of the expulsions was that of Hutchison, John R. Duff's broker in the Hannibal and St. Joseph corner. Hutchison appealed to the courts, which decided that the Exchange had the right to expel him, but could not appropriate the value of his membership. Up to that time the laws of the Exchange provided that the seat of an expelled member escheated to the Exchange.

Any member directly or by partner connected with any organization in New York city dealing in securities similar to those listed in the Exchange is liable to expulsion. The Governing Committee is very strict in enforcing this law. It has by resolution prohibited any connection, direct or indirect, between its members with the Consolidated Stock and Petroleum Exchange, as being detrimental to the interests of the New York Stock Exchange. Every member in New York is required to have a place of business where

notices may be received. No member can represent more than one firm. Branch offices must be in charge either of resident partners or of salaried employees.

The Exchange maintains its rates of commissions rigidly. The commissions are always based on the par value of the securities traded in. No rebates or discounts of any kind are allowed. The constitution provides that on business for parties not members of the Exchange, including joint account transactions in which a non-member is interested, transactions for parties not members of the Exchange, and for firms of which the Exchange member or members are special partners only, the commission shall be not less than $\frac{1}{8}$ of 1 per cent. This, as has been stated, amounts to $12.50 on 100 shares, but as every purchase except for permanent investment is followed by a sale, the commission on one transaction both ways amounts to $25. On every purchase and sale, therefore, there must be an advance of at least $\frac{1}{4}$ of 1 per cent to pay the commission. Anything over that is profit, except that an allowance must also be made for interest.

Business is done by members for members who do not give up the name of a principal at $\frac{1}{32}$ of 1 per cent, and for members giving up a principal at $\frac{1}{50}$ of 1 per cent. A firm having one of its general partners as a member of the Exchange is entitled to these reduced commissions. Violation of the commission law is punishable by suspension from one to five years, but a second offense means immediate expulsion. A member can not form a partnership with a suspended member or with any insolvent person.

The Exchange is opened every business day at half past nine, but no business can be transacted until ten o'clock, when the Chairman, who occupies a seat upon the rostrum, announces the opening. It is the duty of the Chairman to open and close the Exchange, preserve order, and make all announcements, such as deaths, insolvencies, etc. He also buys and sells stock "under the rule"—that is, when a

member is unable to make good deliveries, stocks are bought or sold for his account by the Chairman. There are five hours of trading. The Exchange closes promptly at three. Only loans can be made after that hour. A fine of $50 is imposed on a member who makes any transaction in stocks or bonds, listed or quoted in the Exchange, after that hour or before 10 A. M. in the Exchange or publicly outside.

As soon as the sound of the Chairman's gavel is heard at the opening a babel of voices is raised. The opening is usually active, as orders accumulate overnight. To the onlooker in the gallery everything is apparently noise and confusion. Here is business, he would say, without any system. If he did not know that he was in the Exchange, he might suppose that by accident he had entered a lunatic asylum. He sees men rush wildly into a group with violent gestures and raised voices, push and struggle and shout, all apparently to no purpose. But now and then he will observe some one to leave the group and quietly make a memorandum on a pad. In all that babel of voices and mass of struggling men, comparable only to the crush on the Brooklyn Bridge in the rush hours, a sale has been made involving thousands of dollars.

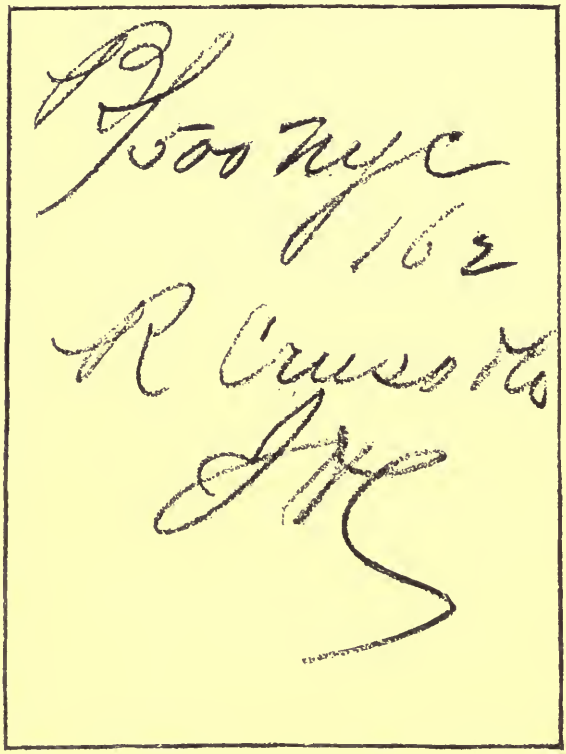
The Stock Exchange has for years been one of the showplaces of New York. Tourists are always taken there, and the galleries are crowded, especially on days of excitement, when the scenes on the floor are of extraordinary interest. In the new Exchange there will be a gallery, but it will no longer be possible to visit the Exchange whenever one is so inclined, as admission to the gallery will be denied to all except those bearing cards of admission signed by members. The authorities of the Exchange do not think it safe, or otherwise desirable, that there should be a crowd of unidentified strangers in the gallery in times of excitement or panic.

But while superficially all is confusion worse confounded in the Board room, as a matter of fact no system could be

more simple or effective, and all trading is done under strict rules rigidly enforced. In every part of the room are posts bearing placards on which are printed the names of stocks. Every active security has its own place for dealings. Thus there is a Sugar post, a Reading post, and the like. There is a place for borrowing stock, and another for loaning money. There are some posts where several stocks are traded in. Brokers having orders to buy Sugar go to the Sugar post, and cry out how much they want and the price they will pay, much as one would bid for real estate at an auction-room, except that here there is no auctioneer. One broker bids, say, 125 for Sugar. There is another broker who has an order to sell at 125¼, or there may be a dozen offers or a dozen bids at the same time. The first bid or offer, however, when it can be distinguished, takes the precedence. If there are more offers than bids the market is weak and the price declines. If the demand is greater than the supply, price goes up. Prices are made by eighths of 1 per cent; the fractions used are ⅛, ¼, ½, etc.; there are no thirds or sevenths. No seller offers a stock down at more than ⅛ of a point at a time. For instance, if his offer of 100 brings no buyer, his next offer is always 99⅞. Each post has an indicator giving the last quotation made. It is necessary that the broker should be active, strong of physique and of voice, quick to see, and prompt to act. No other occupation requires more alertness of mind, coupled with more strength of body and tension of nerve, than that of the broker of the Stock Exchange. All business is done by word of mouth. There are no written contracts. A mere word "sold" or "taken" closes a transaction that may involve $10,000, or even $1,000,000. As he buys or sells, the broker records on a little pad, at the earliest opportunity, the name of the broker of whom he has bought or to whom he has sold.

These pads are supplied to the members of the Exchange and are of uniform size. The following shows the

size of one of these pads, and it is of interest as showing in how small a space a large transaction may be recorded:



The brokers' pad.

In this case the broker has bought 500 shares of New York Central at 162, the total involved being $81,000. He simply recorded the name of the seller, the amount, the price, and his own initials. Later, as will be explained, there are comparisons made between buyers and sellers.

Here, then, is a market, or combination of markets, in which, strictly speaking, there is no actual exchange of securities. That comes later. No stock or bond is ever

transferred in the Board room. All that takes place there is an oral contract to sell or buy, to deliver or receive, a certain number of stocks or bonds at a certain time outside of the Exchange. These oral contracts to deliver are generally called "sales," but sometimes "transactions."

No one is allowed on the floor except members and uniformed employees of the Exchange. When a member is wanted at the door or at the railing which surrounds the Board room, his name is given to an employee, who, by means of an electric annunciator, uncovers his number painted on little squares arranged in regular order on the wall like a huge checker-board. Each active member is allotted a number, and as he knows its place on the wall, it is easy for him to keep his eye on the square holding it. When he is not wanted the number is covered; but when wanted, the cover is lifted, and the number is displayed until he responds to the call. This ingenious device was introduced in 1881. It will be superseded in the new building by an improved system. Each member's number will be painted on a rectangle of opaque glass about 9 by 12 inches in size. Behind the glass will be electric lights of different colors. If a member is wanted at the telephone, a light of one color will be shown, or if he is wanted at the entrance, a light of another color will flash.

Most of the orders are conveyed to the floor by telephones, of which there are several hundred around the Board room. These telephones are leased by the individual members, and connect with their offices. Millions of dollars' worth of property are bought or sold every day through the agency of these telephones.

Between the telephone, the annunciator, and the execution of his orders in the various groups, the active broker, in his few hours on the Exchange, works harder than most people do in twice the time. He is under a severe nervous strain. He labors in an atmosphere of excitement, suppressed for the most part, but at times belching forth in

volcanic fury. Besides executing his orders, he is supposed to keep a watch on what is going on in all parts of the room, and to report to his office all rumors that are circulated and all evidences he discovers of manipulation and other influences at work. He must know what other brokers or traders are selling or buying, and whom they are supposed to represent. He must form a quick judgment as to the forces which are at work in the market and as to the probable rise or fall of prices.

No wonder the active Board member is usually a young man. The elder members of the firm remain in the office directing its affairs and advising customers. The juniors have to enter the arena of speculation to grapple with the gladiators of the Board room. In a time of special excitement this is no mere figure of speech, because the broker is obliged to use physical force to push himself into the group of buyers and sellers, and to hold his own and to make himself heard against all comers.

The constitution of the Exchange provides that all offers made and accepted shall be binding, and it is creditable to the members that the large transactions, made as they are orally, are honorably fulfilled, and comparatively few disputes arise as to the terms of any contract. In all offers to buy or sell, the offer must be accompanied with some specific number of shares, and when no amount is named it is considered, under the constitution, to be for 100 shares of stock of the par value of $100 each, or for $10,000 of bonds. As a matter of fact, the bulk of the transactions is in $10,000 blocks.

It is specified that bids and offers may be made only as follows: "Cash," that is, for delivery and payment upon the day of sale; "regular," which is for delivery upon the business day following the day of sale; "at three days," that is, for delivery upon the third day following the making of the contract; "buyer's or seller's options" for not less than four days nor more than sixty days.

These options mean that the buyer has the right to demand the delivery, or the seller has the right to deliver, at any time within the period of the option. This is a device which, in a measure, corresponds to the system of options or "futures" in grain and cotton speculations, in which the products are sold to be delivered in some future month. The chief difference is that grain and cotton options are for months, not days, and one may buy grain or cotton in March to be delivered, it may be, the following December.

In the Stock Exchange on transactions for more than three days written contracts are exchanged on the day following the transaction, and carry interest at the legal rate. On such contracts one day's notice must be given, at or before 2.15 P. M., before the securities shall be deliverable prior to the maturity of the contract. Bids and offers of cash, regular, at three days, and buyer's or seller's options may be made simultaneously, as being essentially different propositions. In offers to buy on seller's option or to sell on buyer's option the longest option has precedence. In offers to buy on buyer's option or sell on seller's option the shortest option has precedence. No other bids or offers have any standing on the floor. No sale is permitted on which a deposit shall be offered as to limit of liability. Brokers carry stocks for their customers on margins, but between themselves all transactions are on the basis of full payment on delivery.

No fictitious transactions are permitted on the floor under penalty of suspension for not more than one year. The common Street name for fictitious sales is "wash sales." When two brokers conspire together to make a pretended sale of a stock in order to give it a fictitious quotation, that is "a wash sale." It is practicable, however, for an outside operator, by using different brokers, some to sell and others to buy, by a process of "matched orders," as they are called, to give a fictitious value to a stock. This is, indeed, a common manipulative device, and has at times been car-

ried to such extremes as to constitute very plain cases of fraud. While the brokers may be innocent tools of such a conspiracy, it has been argued that the Exchange might by some extension of its rules be able to reach the real conspirators, and in some way to prevent the evil. The Exchange aims at making every sale represent a genuine transaction.

The constitution provides that no offers to buy or sell privileges to receive or deliver securities shall be made publicly at the Exchange under a penalty of $25 for each offense. By "privileges" are meant "puts," "calls," and "spreads," Wall Street terms for a system of bets on the future prices of stocks, and betting is not permitted on the Exchange. Privileges, however, are largely dealt in outside the Board room, some professional operators at times doing a heavy business in them.

When the broker has bought or sold in the Exchange, he reports the transaction by telephone to his office, and not later than an hour after the close of the Exchange the seller is obliged to compare, or endeavor to compare, the transaction at the office of the buyer. Formerly comparisons were made verbally, but in 1891 a new system was introduced, and now slips or tickets are exchanged. No comparison or failure to compare, and no notification or acceptance of notification, shall have the effect of creating or canceling a contract or changing its terms. If the stocks are to be cleared, the transaction passes through a system described in another chapter.

Deliveries of securities must be made before 2.15 P. M. on the same day, if sold for cash, or on the following day, if sold regular. The vast majority of sales are regular. If there is no delivery before 2.15 the contract may be closed out "under the rule." In this case immediate notice must be sent to the Chairman, who will read it from the rostrum, and will publicly buy in the stock at the best price that can be obtained. If this price is more than that at

which the stock should have been delivered, the buyer has a claim against the seller for the difference. The same rule applies to borrowed and loaned securities. If no notice of failure to deliver is given, the contract continues without interest until the next day. When the transfer-books of any company are closed by a legal impediment, deliveries of stocks on contract are made by irrevocable power of attorney, the papers to be satisfactory to the recipient or passed upon by the Committee on Securities.

Definite rules have been established by the Exchange to govern the form of assignment and powers of attorney which must be acknowledged before a notary public. Every stock certificate carries on its face the name of the person to whom it is issued and the number of shares he owns. If the holder sells the stock, it is transferred on the books of the company from the name of the former owner to that of the new, and a new certificate is issued to the latter, but it can also be transferred by an assignment on the back of the certificate. Ultimately the buyer will have the stock transferred to his own name, but in the meantime he has complete evidence of his ownership. It is prescribed by the rules of the Exchange that the signature to the assignment must be technically correct—that is, it must correspond in every respect with the name as written on the face of the certificate. Even such prefixes and affixes as Judge, Doctor, Rev., or M. D. or LL. D. must appear in the indorsement. Certificates in the name of a married woman are not a good delivery while the transfer-books are open; when the books are closed a joint execution of the assignment by both the husband and wife before a notary public is required. An indorsement by a firm represented in the Exchange on a certificate is considered a guarantee of the correctness of the signature of the person in whose name the stock stands. In the delivery of stock the receiver has the option of receiving by certificate and powers of attorney irrevocable in the name of and guaran-

teed by a member of or firm represented in the Exchange, or by transfer thereof; but in all cases where personal liability attaches to ownership, the seller has the right to deliver by actual transfer on the books of the company. The receiver may, in all cases, require delivery by transfer when there is time to make it and the books are open. Certificates in the name of an institution or in the name of one of its officers with title affixed are not a good delivery unless assignment is acknowledged before a notary. Some companies—as, for instance, the Western Union Telegraph and the American Sugar Refineries—require, in addition, a certified copy of the resolutions of the directors of the company in whose name the stock stands.

Deliveries should be made in lots of 100 shares or multiples thereof, and in the case of bonds in lots of $10,000 or multiples thereof. Dividends on stocks are paid, of course, only to the person to whom certificates have been issued and whose names appear on the books. As soon as the books are closed all transactions in the stocks are "ex-dividend." The buyer does not receive the dividend, as his name can not be entered on the books after they have been closed. The constitution of the Exchange provides that the buyer is entitled to receive all interests, dividends, rights and privileges, except voting power, which may pertain to the securities contracted for, and for which the transfer-books shall be closed during the pendency of the contract, and the seller is obliged to deliver to him a due bill therefor signed or indorsed by him. But when a stock is sold, ex-dividend, it is sold with the dividend off. The ex-dividend quotation of a stock is generally the last previous price less the amount of the dividend. For instance, if the price had been 130, and the books closed for a dividend of 1½, the next quotation would be 128½. The constitution prohibits, under penalty for violation, all offers to buy or sell dividends publicly at the Exchange. This, however, is done frequently in Wall Street. It is in the nature

of a bet on the amount of the coming dividend. For instance, there may be much discussion whether the American Sugar Refineries Company's next quarterly dividend will be 1¾ per cent or 2 per cent. A bull on the stock believes that the dividend will be increased, so he offers 1⅞ for the next dividend. If the company declares 2 per cent, he makes the difference of ⅛ per cent; but if the old rate is declared, he loses what he has paid in excess of the amount declared.

As has been said, there is a place in the Exchange where stocks may be loaned and borrowed. The outsider is often puzzled by this class of transactions. Why, he may ask, does any one desire to borrow stocks? He borrows in order to make deliveries. He is under contract to deliver say 100 shares of Rock Island. He does not own the stock and so he borrows it. But why should he sell something that he does not own? This question opens up the phenomena of "short" sales. It has already been explained that a bear is short when he has sold stock that he does not own but hopes to be able to buy on a declining market. He believes, to put a suppositional case, that the stock of the "Trans-Continental" Company is selling too high. It is paying 5 per cent a year, but is quoted at 172 on reports that there will be an increase to 6 per cent. The bear has information, or thinks he has information, that the directors will maintain the old rate, so he begins to sell the stock. But as he does not own a share, and as deliveries must be made the day following the sale, his broker borrows the stock for him. There are usually many lenders, for it is cheaper to lend the stock than to carry it as collateral for a loan at a bank. The lender of a stock receives its full market value in cash. His advantage is that he can thus receive a larger sum on the stock at a lower rate of interest than he could by borrowing money on it at the bank, and at the same time he has the right to demand return of the stock on repayment of the sum given for it. Loans of

stock thus appear on their face the same as sales, and are subject to the same rules of delivery and clearance. The bear who is short thus makes delivery of the stock that he has sold with stock that he has borrowed. Taking up again the thread of the suppositional case, let it be understood that the bear's information is correct. The old rate of dividend is declared and the price of the stock declines to 165. Then the operator orders the broker to buy the stock in for him. This is accomplished, the loan is then satisfied by the delivery to the lender of the stock bought, and the operator has made $7 a share, less commissions and interest.

As a rule, only professional or semiprofessional speculators operate on the short side. Outsiders almost always trade on the long side. Indeed, the majority of people are by temperament bulls. Wall Street is distinguished from most other markets for the facilities it affords for selling what one does not possess. Short selling has been subject to much criticism in that its effect is to depreciate the market value of property. It is described as an assault on values. If A owns 200 shares of stocks valued at $20,000, and B offers to sell the same at $19,000, he has depreciated the value of A's property by $1,000. It may be said that the intrinsic value is unchanged. But if A seeks to borrow money on his stock, the bank will assess its value as collateral on the basis of the price at which B offers to sell, and not on what A considers it to be worth. Nevertheless, it must be confessed that it is difficult to distinguish any real difference in the nature of transactions on the long and the short side. If it is right to speculate for a rise, it is right to speculate for a fall. The bear has his place in the market. He sometimes performs a useful office in restoring prices to their proper level. Like the minority in Congress, which serves as a check on the majority, the bear constitutes a check on undue inflation of prices. In the laws of the Exchange loans of stock are treated much the

same as sales. It is provided that notice for the return of securities must be given at or before one o'clock.

The Exchange maintains a separate Bond room, but places are also set apart on the main floor for bond dealings, and the transactions sometimes exceed $5,000,000 a day, and have reached $11,564,500. But the outside sales of bonds, "over the counter," as the Street phrase is, are larger, and call for the services of a distinct class of brokers expert in investment securities.

The business of a stock broker is profitable but extra-hazardous. One day of panic like that of May 9, 1901, may wipe out the profits of months of active trade. Indeed, at one time on that day it is believed that a majority of the brokerage houses were practically insolvent, and but for the speedy relief and rally many would have gone under. Nevertheless, in the past thirty-two years there have been only 631 Stock Exchange failures, an average of 20 a year. Thus 1 in every 55 of the 1,100 members fail every year. Years of panic naturally produce the largest number of insolvencies. During the last third of a century, 1873 was the most prolific in Stock Exchange failures. There were 79 in that year, and in the years of depression from 1874 to 1877, inclusive, the insolvencies numbered 153. In the panic of 1893 only 13 stock firms failed, and in the three succeeding years of depression only 30 fell by the way. It is clear, therefore, that the improvement in the mechanism of the Exchange, particularly by the establishment of the Stock Clearing-House, has greatly reduced the risks of the brokerage business. In boom times there are few failures. From 1881 to 1883 there were only 20. In the last four years there have been 23; in 1901 there were only 3.

The Exchange has a Committee on Insolvencies, consisting of three members of the Committee on Admissions, whose duty it is to investigate every case of insolvency immediately after its announcement; and should it ascertain

that the failure is caused by reckless or unbusiness-like dealings, it reports the same to the Governing Committee, and the member may be declared ineligible for reinstatement, even if he should settle with his creditors. There have been a number of cases in which reinstatement has been refused for this reason. A member in applying for reinstatement is obliged to give a list of his creditors, a statement of the amounts of the original liabilities, and the nature of settlement in each case. When a member fails, his outstanding contracts are fulfilled by buying in or selling out under the rule of the Exchange.

The Exchange is closed on Sundays and all holidays, and it often voluntarily closes its doors on Good Friday and on such special occasions as the funeral of the President of the United States or the celebration of a national event. Business on Saturdays ends at noon. All contracts due on Sundays and other holidays are settled on the preceding day. On Saturday all contracts in the regular way, and loans of stocks and money made Friday, are settled on Monday, and other contracts and loans of stocks and money falling due on Saturday are settled the day previous.

The government of the Exchange is vested in the Governing Committee, consisting of a President and Treasurer, elected annually, and of 40 members chosen for terms of four years. They are divided in classes, so that 10 are elected every year. This committee has supreme authority. Its decision on all matters is final. Before the consolidation in 1869, every matter of business was put to a vote of the members of the Exchange, but the present system has worked far better. It is substantially the same as that of the directors of a corporation. The governors are divided into a number of subcommittees which have supervision over the different parts of the machinery of the Exchange. There are committees on arrangements, admissions, arbitration, commissions, constitution, finance, law, securities, stock list, unlisted securities, and the Clearing-House.

Governors are paid $5 for every meeting they attend, but the service they perform is really one of love. Men who could command high salaries as officers of corporations practically give their abilities and a large share of their time to the proper administration of the affairs of the institution. The Arbitration Committee settles without resort to litigation differences between members, and also between members and non-members when the latter will agree to abide by the result.

To be President of the Exchange is considered a high distinction. Since 1817, 40 men have held the office, among the more noted being John Ward, H. G. Stebbins, Charles R. Marvin, W. R. Vermilye, William Alexander Smith, Edward King, Brayton Ives, Donald Mackay, J. Edward Simmons, Francis L. Eames, and Rudolph Keppler. There have been only seven secretaries in eighty-five years. The Exchange has also a Chairman, whose duties have been explained. This official receives a salary; he is a member of the Exchange but not of the Governing Committee.

The new building of the Stock Exchange stands in Broad, New, and Wall Streets, on the site of the old building and that of adjoining property bought so as to increase the size of the Board room, and provide other facilities for an enlarged business. The building, constructed of a high grade of Georgia marble, and distinguished by rows of fine Corinthian columns, is admirable in exterior architecture and interior conveniences. The Board room is a superb apartment, 138 feet long by 112 feet wide, and has a height of 80 feet. It extends from Broad Street to New, and contains many novelties for lighting, heating, ventilation, and the transaction of business. It is claimed for it that this is the most complete Stock Exchange in the world, a veritable palace of speculation.

In the basement are built great steel vaults containing hundreds of safe-deposit boxes or safes for the security of

stocks and bonds held by the members. It is one of the picturesque sights of Broad and Wall Streets after 3 o'clock to see the brokers carrying their securities to these vaults. First will come two clerks carrying a box containing the valuable papers. Then follows closely a member of the firm who keeps an eye on the box and deposits it in his safe. Millions upon millions of dollars' worth of securities are thus carried through the streets of the financial district every business day.

It is but natural to inquire how the mechanism of the New York Stock Exchange compares with that of the London Exchange. There is really no comparison; there is a contrast.* The London Exchange has the advantage of the New York Exchange in the scope of its trading, which is world-wide. The London Exchange trades freely in American stocks, but English stocks are not traded in here, although there has been some talk recently, without probability of it amounting to anything, of introducing the shares of the South African Mining Companies, and as this is written, Russian bonds have been placed on the list; so that the time can not be far distant when foreign stocks will be listed on the New York Exchange. American securities were once the leading objects of speculation in London, and as many as 800 London jobbers and brokers devoted themselves almost exclusively to them. But the Kaffir stocks now take the precedence there, and there are only about 100 traders in the "Yankee Rails."

In everything but scope the New York Exchange has the advantage. The London system is antiquated and clumsy. There are clearances, but they are made every

* Prof. James Bryce, in The American Commonwealth, says: "As the eagerness and passion of New York leave European stock-markets far behind, for what the Paris and London Exchanges are at rare moments, Wall Street is for weeks, or perhaps, with a few intermissions, for months together, so the operations of Wall Street are vaster, more boldly conceived, executed with a steadier precision than those of European speculators."

two weeks, not daily. Stocks are admitted to dealings, but under no such scrutiny and regulations as prevail in the listing by the New York Exchange. Then, in London there is a dual system of jobbers and brokers, that seems incomprehensible to Americans accustomed to direct dealings between principals and agents. As in the administration of English law courts there are distinct classes of counselors and attorneys, so in the London Stock Exchange there are brokers who represent customers, but who must do all their trading through jobbers, who have no dealings with the public but trade among themselves and with brokers. The jobbers are the wholesalers and the brokers the retailers. In New York, a customer may give his order in a broker's office and have it executed in the Exchange possibly in two or three minutes and the record of it reported on the tape a minute later; but business in London goes through a system of circumlocution and delay quite characteristic of English conservatism and antagonism to haste. No record of sales is made, and while there are stock "tickers" there was much opposition to their introduction, and even now they record only prices, and not sales.

The London Exchange in 1901 contained 4,673 members and 3,147 clerks. The latter serve four years of apprenticeship, when they may become members on payment of an entrance fee of 250 guineas. Others than clerks may join on a payment double that amount. Members are reelected every year. The Exchange is governed very differently from that of New York. It is controlled by a stock company commonly called the "House," having £240,000 capital divided into 20,000 shares, held by 1,157 members of the Exchange. Only members can be permanent holders of the stock, and no one can own more than 200 shares.

Since the introduction of the cable there have been opportunities for what are called "arbitrage" dealings between the New York and London stock-markets. Instan-

taneous quotations are exchanged between New York and London, but as there is generally a difference in the prices, an active broker may, through his representative abroad, be able to buy in one market and sell in another at the same time and clear a profit. In an arbitrage transaction, the ocean has to be crossed twice by a cablegram passing through the hands of three operators, but this takes only about four minutes, and has been done in less time. There are about ten houses that do an arbitrage business with London, and six of these do nearly all the trading. The difference in time between London and New York is four minutes and one second less than five hours. As the New York Exchange opens at 10 A. M., it is then four minutes of three o'clock in the afternoon in London, and by two minutes after three the full New York opening prices are known in London, only the six minutes being required to make the sales in New York, to gather the quotations, to put them into the hands of the telegraph operator, to transmit them to London and to publish them there.

The hour of closing business in the London Exchange is at three o'clock, but the trading goes on until four and on the curb much later. The London two o'clock quotations are received in Wall Street shortly after 9 A. M. London can trade by cable in American stocks during all the time the New York Exchange is open, as when it closes it is only eight o'clock in London. The London orders executed in New York are often large. They have amounted to as many as 100,000 shares and over in one day, and they are frequently an important factor in the market. There was formerly a large arbitrage business between New York and other American cities, but this has been reduced to a small figure by the act, in 1898, of the New York Exchange, which, believing that this trading as carried on was detrimental to its interests because it resulted in practically ignoring the commission law, took measures to stop it.

CHAPTER IX

NEW YORK STOCK EXCHANGE CLEARING-HOUSE

The growth of the stock-market is limited only by the ability of the money market to supply the necessary banking accommodations. No active broker, unless possessed of immense resources, could transact a large business without the temporary credit extended to him by his bank through overcertification of his checks. There is a limit to the ability and willingness of the banks to extend the benefit of such overcertification.

That limit seemed to be reached in 1892, when the banks, alarmed by the large certifications required by the brokers, threatened action, which finally forced the Stock Exchange to adopt a system that would reduce the volume of required certification. The result is the Stock Clearing-House of the New York Stock Exchange. For many years there had been agitation in favor of stock clearances. As early as 1857, only four years after the establishment of the Bank Clearing-House, it was proposed to extend the same system to stocks. During the period of the exciting speculation in gold after the war, transactions in gold were cleared with success through the New York Gold Exchange Bank, although the system did not commend itself as one adapted to stocks. The first stock clearing system was successfully established in Frankfort in 1867, and was speedily adopted by Berlin, Hamburg, Vienna, and London. At various periods attempts were made to found a Stock Clearing-House in New York, but they all ended in failure. In 1883,

Controller of the Currency John J. Knox called attention to the London Stock Clearing-House, and suggested the adoption of a similar system as the means of reducing the evil of overcertification.

In 1892 R. L. Edwards, President of the Bank of the State of New York, which did a heavy business with brokers, wrote to the president of the Exchange stating that there would be a probable curtailment of certification unless something was done. Then, mainly through the labor of Francis L. Eames, the present stock clearing system was adopted and went into effect on May 17th, the one hundredth anniversary of the brokers' agreement of 1792, out of which the Stock Exchange grew.

For many years the Philadelphia Stock Exchange had had such a system in successful operation, and the Boston Exchange had recently adopted it. In European cities, as has been stated, clearances had long been in operation. But the European system was and still is based on fortnightly settlements, and the New York Exchange, long accustomed to daily deliveries of stock, preferred a system of daily clearances. Although late in adopting this clearance system, the New York Stock Exchange has succeeded in establishing one which, for the extent of its transactions and its adaptability to the growing business of the country, has no equal anywhere.

"If this Exchange," wrote the Special Committee of the Exchange in 1892 in recommending clearances, "is to take the proper place in the future among the stock-markets of the world, a system of doing business will be required which will stand the strain of a volume of business larger than any heretofore known. Our present system of actual payment of entire value in every transaction blocks up in active times both banks and offices to an intolerable extent, and is an obstacle to the growth of the business commensurate with the growth of the country. For causes well understood, the banking facilities for this business have not

increased during recent years. A proper system of clearing by largely reducing the volume of checks and deliveries would relieve both offices and banks of much of the confusion and risk with which we are so familiar."

Speaking of the legality of clearances, the report said: "The laws of this State require in all contracts an intent to deliver. At the present day, on the various exchanges, transactions in securities and agricultural products have reached such magnitude, that to pass the actual property or warehouse receipt or the certificate of stock into the hands of each party to every contract is impossible. The business of the world is now too large to be transacted in that way. Contracts on which the actual delivery of the property can be enforced if desired make the markets of the world." The report states that the courts have held that such contracts show the required intent to deliver and are thus legal.

The Stock Exchange Clearing-House has fulfilled every prediction made in this report. Writing in 1894, two years after its establishment, Mr. Eames said that "during the panic of 1893 failures on the Stock Exchange would have been vastly more numerous had there been no clearing system in operation." So in the unequaled speculation of 1901, the clearing system proved more than adequate to every demand upon it. As a matter of fact, it has expanded to an almost unlimited degree the capacity of the stock-market. With its aid the mechanism of Wall Street appears powerful enough to conduct easily and well all the possible operations of the future. The importance of the Clearing-House can therefore be scarcely overestimated.

It is conceded that it would have been impossible to have transacted the stock business of 1901 ex-Clearing-House. The machinery of the Street would have broken down. Even on the panic day of May 9, 1901, when the total sales of stocks were 3,336,695 shares, and when the Street was convulsed by the tremendous fall in prices, there was no failure of the Clearing-House system. Transactions

of the 9th were cleared as usual on the 10th, with the following result:

Shares cleared both sides, including balances	12,131,600
Total value both sides, contracts and balances	$961,300,000
Share balances one side	1,714,800
Value share balances one side	$129,800,000
Cash balances, one side	$5,461,700
Number of parties clearing	452
Banks certification obviated	$221,050,000

On the same day the transactions of the Bank Clearing-House (the heaviest on record) were $622,410,525, or nearly $339,000,000 less.

The Stock Clearing-House, however, has done a larger business even than that of May 10th. Inasmuch as there are no clearances dated on Saturday, the clearances of May 6th, 1901, represented two days' transaction. On that day the shares cleared both sides amounted to 13,313,800, having a value of $1,132,200,000. Over one billion dollars in one day! The bank certifications obviated amounted to $286,100,000.

The statistics for the two years 1893 and 1901 are of interest as summing up the operation of the system in periods of panic and boom.

	1893.	1901.
Shares cleared both sides, including balances	256,335,400	926,347,300
Total value both sides, contracts and balances	$16,169,800,000	$77,853,500,000
Share balances one side	24,742,700	134,391,000
Value share balances one side	$1,470,700,000	$10,930,853,000
Cash balances one side	$33,116,400	$116,849,300
Certification required	$1,470,700,000	$10,930,853,600
Certification obviated	$5,143,300,000	$17,065,042,800
Certification that would have been required without clearances	$6,614,200,000	$27,995,896,400

These sums are so great as to be beyond human comprehension. The highest monthly total of stock clearances in

London was, in July, 1901, £875,728,000. The average daily saving to the banks in New York in certifications amounts to more than $50,000,000.

The Stock Clearing-House is capable of indefinite expansion; there seems to be no limit to the amount of business it could do. It has handled about 100,000 items in one day. One broker alone has turned in about 1,300 items. If the other 490 firms did the same there would be 637,000 items in one day. It follows, therefore, that the Clearing-House can handle at least six times its business in 1901, and that is an underestimate.

Through its operation 65 per cent of all the shares dealt in are eliminated in deliveries, and more than 90 per cent of the number of checks is done away with. At the time this was written 64 stocks were regularly cleared, these representing 85 per cent of the total sales of the Exchange. All sales in these stocks are cleared, except at the time they are made it is expressly stipulated that they shall be ex-Clearing-House.

The operation of clearing is simplicity itself. A sells 100 shares of Atchison to B, who likewise sells 100 shares of the same stock to C. Now, instead of A delivering the stock to B, and then B delivering it to C, which was the method of business before the Clearing-House was established, A, under the new system, delivers the stock directly to C.

This operation is precisely the same as that which forms the basis of foreign exchange. But in stock clearances the balances are settled in both stocks and money. This duality of settlement is what makes the stock clearing system so puzzling to those not instructed in its methods. In reality the system is not at all complicated. The reason for the double settlement may be easily reasoned out. In the example given, A must deliver to C stock he has sold to B, but the price at which he has sold to B may be different from that at which C bought of B. Consequently

there must be a settlement price established, so that clearances may be made equitably. It follows that there must also be a cash settlement to make up the difference between the contract or purchase price and the settlement price. This may be made clearer by two simple illustrations.

A sells 100 shares of Atchison at 75 to B, who sells the same amount to C at 76. The clearance then proceeds as follows: A is directed to deliver the stock to C, who pays him 76 for it. But as A sold to B at 75, he gets $1 a share, or $100 for the 100 shares, more than is due him. So A draws his check for $100 to the order of the Clearing-House and delivers it with his clearance sheet. C having got his stock at the price he contracted to pay for it, is satisfied. B having bought at 75 and sold at 76, has no delivery of stock to make, but he has a profit of $100 coming to him, so he draws a draft on the Clearing-House for that amount. What is the result? A gets 76 for the stock he has sold minus $100 paid to the Clearing-House. C gets the stock at the price he has contracted for, and B, who both bought and sold, gets his profit of $100. The Clearing-House having received $100 from A, has paid the same amount to B.

In Clearing-House transactions the firm that buys and sells the same stock clears the transaction on its own sheet, drawing on the Clearing-House for the amount of the profit, or paying to the Clearing-House the amount of the loss, as the case may be. But when the firm delivers its stock it delivers at a fixed delivery price, and must credit or debit itself for the difference between the delivery and the contract price. In other words, the delivery price applies only to stock balances that must be delivered.

To make the operation clearer another illustration must be given. A sells to B 200 shares of Atchison at 75. B sells 200 shares of Atchison to C at 76, and 200 shares of Union Pacific at 100. C sells A 100 shares of Union Pacific at 101. The delivery or settlement price of Atchi-

son is 77, and of Union Pacific 99. The clearance will then proceed as follows: A delivers 200 Atchison to C; B delivers 100 Union Pacific to A and 100 to C. C has no delivery, but receives 100 Union Pacific from B and 200 Atchison from A. As A, under the delivery price of 77, receives $400 more for the 200 Atchison than the selling price of 75, and will pay 99, or $200, less for 100 Union Pacific than the contract price of 101, he is a debtor of the Clearing-House for $600. B clears 200 Atchison at $200 profit, the difference between the contract purchase price of 75 and the contract selling price of 76. But in delivering 200 Union Pacific to A and C at the delivery price of 99, he gets $200 less than under the contract selling price of 100. So B is a creditor of the Clearing-House for $400. C clears 100 shares of Union Pacific at a profit of $100, the difference between the contract purchase price of 100 and the contract selling price of 101, but he pays $100 less for the 100 Union Pacific he will receive from B under the delivery price of 99 than he contracted to pay, so these two items balance each other. C pays, under the delivery price of 77, $200 more for his Atchison than the contract price of 76, and has therefore a credit of $200 at the Clearing-House. The Clearing-House would receive $600 from A, and pay $400 to B and $200 to C, and the deliveries of balances of stocks would then proceed as already indicated.

This illustration shows the process of clearance and the difference between contract and delivery prices, but inadequately indicates the advantages of the Clearing-House in reducing deliveries and obviating certifications. The operation of clearance looks simple when reduced to this alphabetical form, but when the operations of nearly 500 firms, each making many purchases and sales every day, are to be cleared, the system, while precisely the same, is working on so large a scale and in so many different stocks that it is not surprising that the outsider, in trying to understand it, gets lost in the maze of stock deliveries and cash settle-

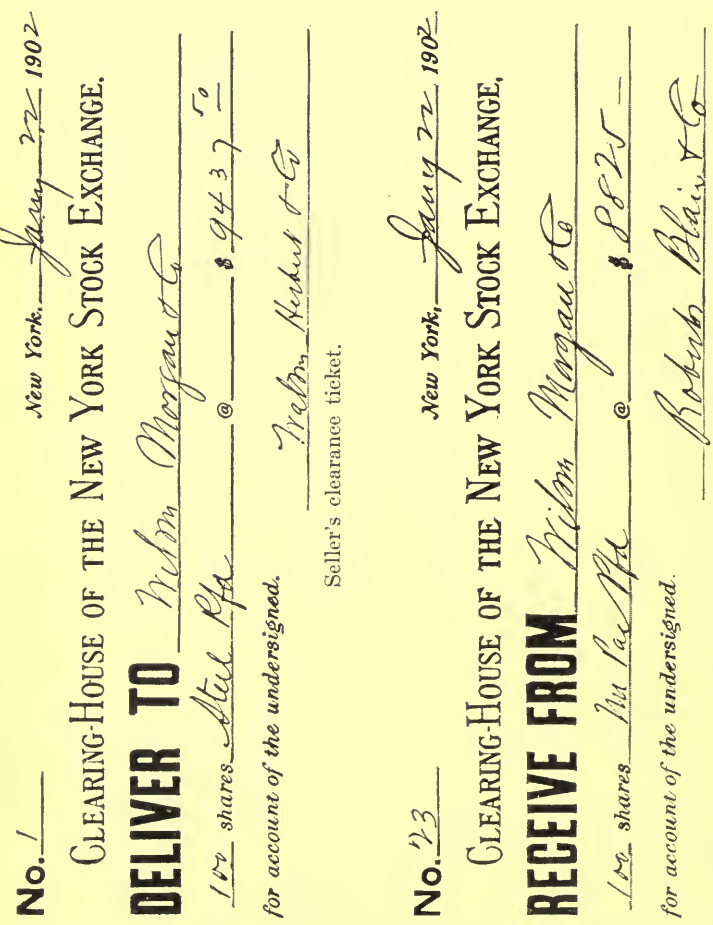
ments. In the practical working of the system, however, there is nothing involved or uncertain; never once has the machinery broken down or become clogged. In panic and in boom it has worked with precision, accuracy, and secrecy.

For the sake of an illustration it is necessary to go through the forms of an actual clearance.* The firm of Wilson, Morgan & Company, of 45 Wall Street, has through its Board member, Mr. Morgan, bought or borrowed 1,500 shares of Steel, preferred, at varying prices from eight different firms, 700 shares of Atchison from one firm and 700 of Union Pacific, preferred, from another. On the same day it has sold or loaned 700 shares of Atchison to one firm, 1,000 shares of Union Pacific, preferred, to five firms, and 1,300 shares of Steel, preferred, to one firm. This was not a very large day's business, but it is better for the purposes of illustration than much greater operations would have been. Yet, even on this day, Wilson, Morgan & Company had had dealings with seventeen different firms, bought 2,900 shares of stock and sold 3,000. Under the old no-clearance system it would have had to make seventeen different settlements on this day, involving the sum of $519,411.14. But by means of the Clearing-House it is enabled to settle the whole business by drawing a draft for $461.14 and delivering 300 shares of Union Pacific, preferred, for which it receives a check for $26,400 and by accepting 200 shares of Steel, preferred, for which it gives a check for $18,800. The clearance is therefore reduced from seventeen deliveries to two, and from seventeen checks amounting to $519,411.14 to three checks amounting to $45,661.14.

This is by no means an uncommon case. Many might have been given in which the process of elimination was greater. There has been one instance in which 204,000 shares, valued at $12,500,000 on one side, have been settled by a payment of about $10,000.

* The names used are fictitious.

Mr. Morgan having made his purchases and sales in the Board room, reports them by telephone to his firm. In ex-Clearing-House transactions comparison slips would now



have to be made out, but in Clearing-House transactions clearance or exchange tickets take their place. The seller is obliged to send to the office of the buyer a ticket printed

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CLEARING-HOUSE OF TH

NEW YORK, Jany 22 1902 OFFICE ADDRESS, 45

RECEIVE FROM	SHARES	STOCK	PRICE	AMOUNT
Watson, Herbert & C	100	Steel Pfd		97 43
L. Smith & C	3	"		2 8 3 0
H Celus & C	5	"		4 7 1 8
J Wallace & C	2	"		1 8 8 7
W C Brown & C	1	"		9 4 5
Harriman & C	1	"		9 4 3
C L Hudson & C	1	"		9 4 5
R. Haleth & Sons	1	"		9 4 3
W. Jones & C	7	Atch Com		5 2 8 0
H T Carey & Co	7	Mo Pac Pfd		6 1 6 0
Bal to Delin	3	Mo Pac Pfd		2 6 4 0
	2 Pfd			4 6
	3 200			28 2 5 3

ENTER ON THIS SHEET ONLY THOSE TRANSACTIONS FOR WHICH TICK

Th

NEW YORK STOCK EXCHANGE No. 575

...u St CLEARING SHEET OF Wilson Morgan & Co

	DELIVER TO	SHARES	STOCK	PRICE	AMOUNT
o	Geo Lamb & Co	700	Atch Com.		5321034
	Roberts Blair & Co	1	Mo Pac Pfd		8825
o	A. Leo & Co	2	"		17675 80
	Smith O'Brien & Co	1	"		8825
	C. Bauersfeld & Co	5	"		44125
o	J. S. Bache & Co	1	"		8875
	L. Van Hoffman & Co	13	Steel Pfd		122200
o					
	Bal. to Rec.	200	Steel Pfd		18800
4					
4		3200			282536 14

...AVE BEEN EXCHANGED. THE TICKETS MUST AGREE OR BOTH PARTIES WILL BE FINED.

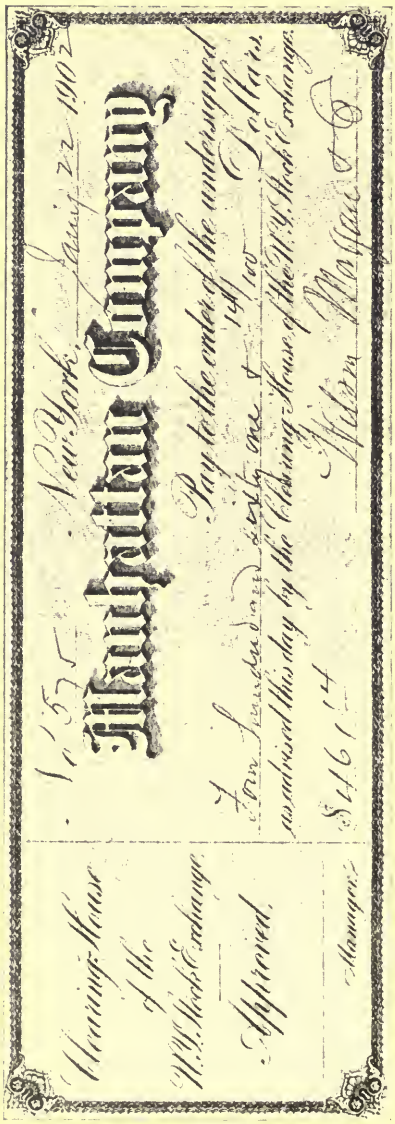
...earance sheet.

in red on white paper to distinguish it from the buyer's ticket, which is printed in black on yellow paper. This record is in the form of an order on the Clearing-House for the delivery or the receipt of the stock. For instance, Wilson, Morgan & Company having bought 100 Steel, preferred, at 94⅝, from Watson, Hubert & Company, receives from that firm a white paper ticket printed in red as shown on page 124.

Wilson, Morgan & Company compare this ticket with their own record of the transaction, and if the two agree the firm gives in exchange a yellow ticket that it will receive 100 shares of Steel, preferred. The firm having sold 100 Union Pacific, preferred, at 88¼, to Roberts, Blair & Company, sends to its office a white-red ticket like that it has received from Watson, Hubert & Company. Roberts, Blair & Company compare the ticket with their record, and, if found correct, give a yellow-black ticket—shown on page 124—in exchange.

Having made these comparisons and exchanges of tickets with all the firms with which it has had dealings, Wilson, Morgan & Company now make up their clearance sheet for the day's transaction with the result shown in the accompanying folder.

As the firm has bought or borrowed and sold or loaned 700 shares of Atchison, all that it is necessary to do is to ascertain the difference between the buying contract price and the selling contract price. As it bought 1,500 shares and sold 1,300 shares of steel, preferred, it can clear on its own sheet 1,300 shares in like manner by ascertaining the difference in contract prices, leaving a balance of 200 shares to be received. As it bought 700 Union Pacific, preferred, and sold 1,000 shares, it can clear 700 shares by finding the difference between the contract prices, leaving 300 shares to be delivered. As these deliveries are to be made at the fixed delivery prices, the firm must ascertain the difference between the contract and delivery prices to ascertain what



The Clearing-House draft.

is its credit or debit. The firm bought the 1,500 shares of Steel, preferred, for $141,575, and sold 1,300 shares for $122,200, leaving $19,375 as the cost of the remaining 200 shares. But as the delivery price is 94, it will actually pay only $18,800 for the stock on delivery. So that it is debit for $575 to the Clearing-House, which will pay the sum to the firm or firms to which it rightly belongs. The profit on the 700 shares of Atchison is $710.34, which is therefore due the firm from the Clearing-House. There now remains the Union Pacific, preferred, 700 of which were bought for $61,600 and 1,000 sold for $88,325.80. It is due to receive, therefore, $26,725.80 for the 300 shares more that have been sold than bought, but under the delivery

price it will receive only $26,400, so that a balance of $325.80 is due it from the Clearing-House. It appears, therefore, that the firm is debtor $575 to the Clearing-House and creditor $710.34 and $325.80, or a total of $1,036.14, leaving a credit balance of $461.14.

It is all a matter of simple bookkeeping. The firm now draws a draft for its credit balance on the Manhattan Bank, in which the Clearing-House keeps its account. The form of this draft is shown on page 126.

This draft, together with the clearance sheet and all the exchange tickets it has received from the firms representing the other side to the transactions, Wilson, Morgan & Com-

CLEARING-HOUSE OF THE NEW YORK STOCK EXCHANGE.

THE UNDERSIGNED WILL **DELIVER** THE FOLLOWING **BALANCE** OF STOCK AT THE DELIVERY PRICE

SHARES	STOCK	DELIVER TO	
300	Mo Pac Pfd		

DATE 1/22/02 NAME Wilson, Morgan & Co No. 575

Statement of stock to deliver.

pany deliver at the Clearing-House within four hours after the close of the Exchange, on the day that the transactions are made, except Friday. Friday's and Saturday's sheets are turned in on Saturday and the clearance is made Monday. The other firms will send to the Clearing-House the tickets Wilson, Morgan & Company have given out, so that both sides have complete vouchers for the sale and the

Clearing-House has full authority to clear. If Wilson, Morgan & Company's sheet, instead of showing a credit in their favor, had shown a debit, it would have sent, instead of a draft, a check for the amount of the debit on the firm's own bank.

At the same time it delivers the sheet at the Clearing-House it must hand in statements of the amount of stock it has to deliver or to receive on balance, in the form shown on page 127.

The Clearing-House, having in the meantime examined and audited all the items and made up its allotment sheets, will the next day at 9.30 A. M. return this statement to Wilson, Morgan & Company, with the name of the firm to which it must deliver the Union Pacific, preferred, or from whom it must receive the Steel, preferred, as the case may be. About noon of the same day it will receive back the draft, with the signature of the manager written in the margin under the word "Approved." This draft it will deposit in its bank and collect through the Bank Clearing-House. This closes the firm's dealings with the Clearing-House for the day, but it must now deliver the 300 Union Pacific, preferred, to the firm indicated by the Clearing-House, and for this it will receive $26,400 and must accept 200 shares of Steel, preferred, for which it must pay $18,800. When the accounts are balanced the result will be exactly the same as if it had had separate settlements with each of the other seventeen firms with which it had dealings the day before. The difference is that it has saved time, trouble, and, above all, the extra bank certification of checks involved in ex-Clearing-House transactions. Failure to deliver or receive stock after passing through the Clearing-House is dealt with under the rules of the Exchange governing failures to fulfil contract.

It may be remarked that the Clearing-House in cases of insolvency has saved much of the time and loss involved in making settlements. For the service performed

ST. LOUIS & S. F. 2ND PREF. BALANCES Jany 22d 1902

NO.	SHARES	WILL RECEIVE
1	100	J P Smith & Co.
2	2	C. Jones & Co
3	1	Lawson & Brown
4	4	V.W. James & Co
5	6	Cullen & Mullen
6	1	J.C. Warwick & Co
7	3 1/8	Crosby Jackson & Co
8		
9		
10		
11		
12		
13		

NO.	SHARES	WILL DELIVER		
1	200	J Dawson & Co	2	
2	5	Helme Hays & Co	4	1/6
3	1	Rollins Bros	1	
4	1	H.L Henry & Co	3	
5	3	C.H Brooks & Co	5	
6	3	Lount Bros	5	
7	3 1/8	J.C Lee & Co	7	
8				
9				
10				

The allotment sheet.

by the Clearing-House each firm pays 2½ cents per 100 shares of $100 par value. Only 100-share lots and multiples thereof are cleared. No bonds are cleared except on special occasions. Fines are imposed for mistakes and delays in delivering sheets, etc. Tickets that are exchanged and sent to the Clearing-House must agree, or both parties are fined.

The delivery prices are established by the Clearing-House every afternoon. These are as near as possible to the closing prices of the day, avoiding all fractions, and as soon as established are sent over the tickers.

The whole system of stock clearances on the outside of the Clearing-House has now been explained. The system within the Clearing-House is fully as simple, accurate, and clear. As the hours are long, the work going on by night as well as day, two managers are employed and an ample force of clerks. Everything is systematized as completely as in a bank. Each clerk has his appointed place and duty. The clerks at the windows who receive the clearance sheets and tickets examine the items and total to see that they are properly made out, and then they are passed to other clerks, who audit them carefully. The exchanged tickets are distributed in tiers of boxes like mail in a post-office, and these tickets are taken to clerks who compare them with the clearance sheet. The tickets for delivery of stock balances are also sorted and taken to the clerk who makes out the allotment sheets. Each stock has its own sheet, on the debit side of which are put the names of those due to receive stock, and on the credit side those who will deliver. It is now comparatively easy to make the allotments, as the specimen sheet on page 129 will show.

J. Dowson & Company deliver 200 to C. Jones & Company; Helm Hayes & Company, 400 to V. W. James & Company and 100 to J. C. Warwick & Company; Rollins Brothers, 100 to J. P. Smith & Company; H. L. Henry & Company, 100 to Lawson & Brown; C. H. Krouse & Company, 300 to Cullen & Mullen; Lamb Brothers & Company,

300 to the same firm ; and J. C. Lee, 300 to Crosby, Jackson & Company. Of course there are always as many stocks bought as there are sold, so that both sides of the sheet will exactly balance.

The establishment of the stock clearance system was long opposed because of fear that the clearance sheets would give too much information about important operations to the clerks in the Clearing-House. Experience has demonstrated that operations are as readily concealed under the new as the old system. Loans of stock, for instance, appear on the clearance sheets as sales, and any clerk seeing the sheet could not tell whether the transactions were loans or sales, and therefore the sheet would have no meaning to him. Likewise stocks that appear as having been bought may have really been borrowed in operations on the short side. Large operators nearly always employ two or more brokers, and conceal their operations by arranging their orders so as to prevent any one from knowing what they are really doing. Even a broker may not be able to tell whether his customer is really a bull or a bear, for while the operator may be buying through this broker he is selling through another. How much less, therefore, can the clerk in the Clearing-House comprehend what he may see of the transactions of the brokers. Besides, the work of the Clearing-House is distributed among many persons. One clerk sees only one small part of what is going on, just as a common soldier sees only the small section of the battlefield in which he is fighting, and is probably in entire ignorance of how the battle as a whole is progressing. The work must be done too quickly for close inspection, and, moreover, it is facilitated by the use of numbers. Each member and firm has a number, which he must stamp on everything he sends to the Clearing-House, and allotments are made and clearances consummated very largely by the use of these numbers. Persons are of no account in the Clearing-House. It looks merely at numbers, balances, and exchanges.

The Clearing-House guards its secrets strictly, and there has never been an instance of any disclosure of information that should be kept private. Clearance sheets and tickets are returned to the different firms after the clearance has been consummated. The Clearing-House keeps no records. Necessarily in making clearances it audits the great bulk of the transactions of the Exchange, no small service in itself.

This remarkable institution is governed by a committee of five, composed of and appointed by the Governors of the Exchange. This consists at present (1902) of R. P. Doremus, Chairman, Charles Hazzard, W. H. Granbery, William Robinson, and F. L. Rodewald.

CHAPTER X

TOOLS OF WALL STREET

"Our current political economy," wrote Walter Bagehot thirty years ago, "does not sufficiently take account of time as an element in trade operations." It can not be said, however, that Wall Street does not take account of time. Speed with accuracy, promptness in all things—this is the cornerstone of modern finance. Most of the tools of Wall Street are time-savers. The six most important are:

The stock indicator.
The telegraph.
The cable.
The telephone.
The news slips.
The market reports.

There was active speculation before the introduction, in 1867, of the stock indicator, or "ticker" as it is called, but it is difficult to conceive now of a market deprived of its use and compelled to rely upon quotations carried by brokers from office to office. The very life of the Street seems to depend upon accurate, immediate, and continuous quotations from the Stock Exchange.

These are provided by the stock indicator, a marvelous little instrument which prints upon a narrow ribbon of paper the sales and prices made in the Board room. The paper, which is in a roll or spool, feeds itself into the ticker, and after receiving there the printed impressions falls into a basket placed beside the machine. In the vernacular of the Street this paper is called the "tape."

The Exchange has always zealously guarded its quotations, and has endeavored to prevent them from reaching rival institutions or the bucket-shops. But it supplies the quotations to its members and the outside public simultaneously. Its own corps of reporters obtain the sales as they are made in the Board room and carry them to four telegraph stations placed in convenient parts of the room. These send the quotations instantly to a gallery where the employees of the two ticker companies are stationed. One of these, the New York Quotation Company, is owned and controlled by the Exchange, and it supplies the quotations to its members. Its tickers, about 1,000 in number, do not extend outside of the Wall Street district. The other company, the Gold and Stock, is independent of the Exchange, but gets the quotations simultaneously with the other, and has the right to sell them, under certain restrictions hereafter noted, to any one desiring them. As a matter of fact, tickers are to be found in almost every public place. They are indispensable adjuncts of every banking and brokerage office.

A number of years ago the Stock Exchange had a long controversy with the then existing ticker company. It was charged that the latter supplied indicators to bucket-shops, and the Exchange was bound to break up this abuse of its quotations. The controversy was carried into the courts, and the question was raised as to the right of the Exchange to withhold its quotations from the public. In the end the Exchange made a satisfactory contract with the company, supplying the public with quotations, and established its special service for its own members.

While the quotations are reported as soon after they are made as it is possible to gather them, it takes some time, of course, to get them to the indicator, and it follows that the ticker is always a little behind the actual market. On an ordinary day the difference in time between, say, the close of the market and the record of the final sales on the tape

may not amount to more than one or two or three minutes, but on a very active day, when the transactions are heavy, it has taken the ticker ten minutes and even more to record the accumulation of sales. The speed with which the sales made in the Exchange reach the public is marvelous, and proves the perfection of the system employed. Occasionally a mistake is made, but there is always a swift correction.

As there are more than four hundred different stocks and bonds more or less regularly traded in at the Exchange, many of them bearing the long names of their corporations, it is necessary to use abbreviations in reporting quotations on the tape. To the uninitiated the tape appears to be a meaningless jumble of letters and figures almost as undecipherable as a cable code or Egyptian hieroglyphics. But the broker and regular habitué of the Street learns to read it as readily as a priest reads his Latin. A large chart containing the abbreviations goes with each ticker, but it is rarely consulted. Here are the abbreviations used for a few of the more active stocks:

S	The American Sugar Refining Company.
ACP	Amalgamated Copper Company.
ST	Chicago, Milwaukee & St. Paul.
RI	Chicago, Rock Island & Pacific.
CEN	New York Central & Hudson River.
A	Atchison, Topeka & Santa Fé.
RG	Philadelphia & Reading.
W	Western Union Telegraph.
U	Union Pacific.
MP	Missouri Paeific.
2s	U. S. 2s Con. 1930.
PR	Preferred.
X	Ex-coupon Dividend or Interest.
UR	Under the Rule.

In view of the great volume of business during the past two years, it has been necessary to abbreviate many of the abbreviations so as to be able to report all the sales swiftly.

Several of the abbreviations are responsible for the popular Street nicknames of leading stocks. For instance,

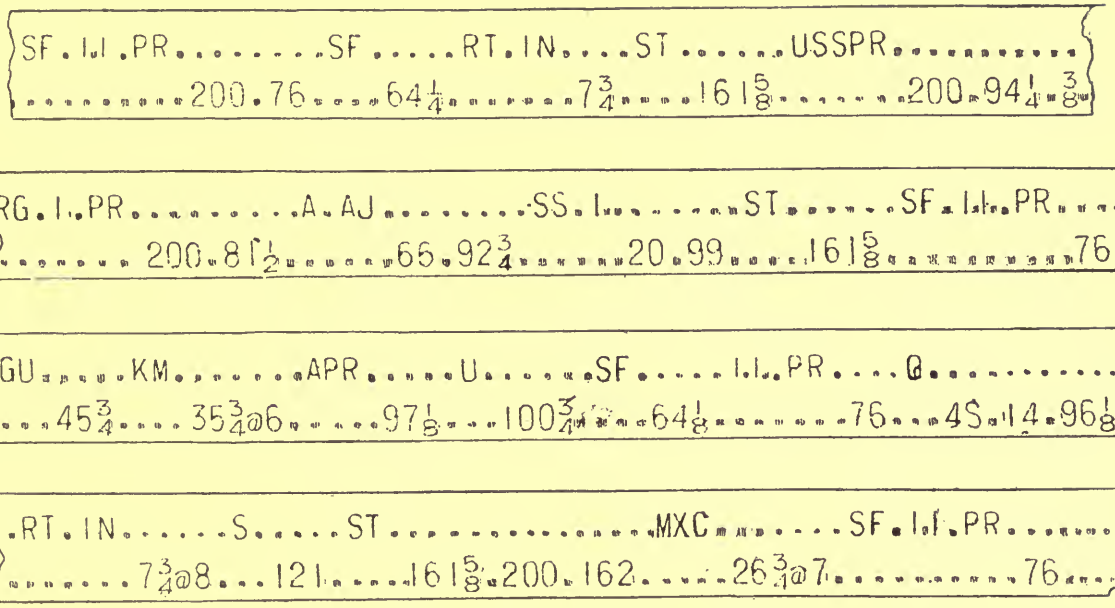
because MP stands on the tape for Missouri Pacific, that stock is generally called "Mop." NP stands for Northern Pacific, which goes by the name "Nipper," the common being called "little" and the preferred "big." PO standing for People's Gas Light and Coke Company, that stock is often called "Post-office." The same law of economy in the use of words applies to all the active stocks.

On page 137 is a section of a stock tape just as it comes from the ticker.

This, being interpreted, reads: St. Louis & San Francisco preferred stock, 200 shares at 76; St. Louis & San Francisco, common, 100 shares at 64¼; Standard Rope and Twine income bonds, 10 at 7⅜; Chicago, Milwaukee & St. Paul common stock, 100 shares at 161⅝; United States Steel preferred stock, 200 shares at 94¼; 100 shares do. at 94⅜; Reading first preferred stock, 200 shares at 81½; Atchison Adjustment bonds, 66 at 92¾; St. Louis & South Western first bonds, 20 at 99; Chicago, Milwaukee & St. Paul stock, 100 shares at 161⅝; St. Louis & San Francisco second preferred stock, 100 shares at 76; Glucose Sugar Refining Company stock, 100 shares at 45¾; Kanawha & Michigan Railway, 35¾ bid, offered at 36; Atchison preferred stock, 100 shares at 97⅛; Union Pacific stock, 100 shares at 100⅜; St. Louis & San Francisco common stock, 100 shares at 64⅛; do. second preferred, 100 shares at 76; Chicago, Burlington & Quincy 4s, 14 bonds at 96½; Standard Rope and Twine income bonds, bid 7¾, offered 8; American Sugar stock, 100 shares at 121; Chicago, Milwaukee & St. Paul stock, 100 shares at 161⅝; 200 shares do. at 162; Mexican Central Railway stock, bid 26¾, offered at 27; St. Louis & San Francisco, second preferred stock, 100 shares at 76.

"The letters and figures used in the language of the tape," says a noted Boston operator, "are very few, but they spell ruin in ninety-nine million ways."

Notwithstanding the abbreviations, the number of



The stock "tape" as it comes from the "ticker."

printed impressions every day is very large, although much less than the number of shares sold. For instance, on April 30, 1901, when 3,234,339 shares were sold, besides a large number of bonds, the printed impressions on the tape numbered 79,200. The New York Quotation Company has a delicate little machine for taking an accurate count of the characters printed on the tape, and it has kept a record for a number of years past. The record is as follows:

Year.	Number of shares traded in.	Number of impressions on stock tape.
1890	71,282,885	7,200,000
1891	69,031,689	7,200,000
1892	85,875,092	7,104,000
1893	80,977,839	6,900,700
1894	49,075,062	5,500,000
1895	66,583,232	6,814,900
1896	54,654,096	6,324,000
1897	77,324,172	8,232,000
1898	90,468,213	10,324,600
1899	173,912,086	11,931,700
1900	138,312,266	10,217,100
1901	252,723,292	12,830,500

Last year it took ninety-nine thousand pounds of paper to supply the thousand tickers of the New York Quotation Company.

The chart on the opposite page, while applying only to the number of printed impressions on the tape, is given because it is also valuable as showing the volume of stock and bond transactions in the past eleven years. As the sales are almost always heaviest in the bull years, the chart may be taken as a bird's-eye view of the stock market since 1890.

The ticker, among its other offices, is a timekeeper for the Street. The rule for delivery of stocks being very strict, and the time for delivery expiring at 2.15 P. M., the ticker every day at fourteen minutes after two prints "time" on the tape, and shortly after the instrument gives fifteen distinct beats, at the end of which it is exactly

settlement time. Nearly every timepiece in the Street is regulated by the tape.

Besides the thousand stock tickers operated by the New York Quotation Company, the Gold and Stock Company operates about seven hundred and fifty, rented to customers in Manhattan, Brooklyn, and Jersey City. No one can rent one of these machines whose name has not been approved by a committee of the Exchange. This rule is being

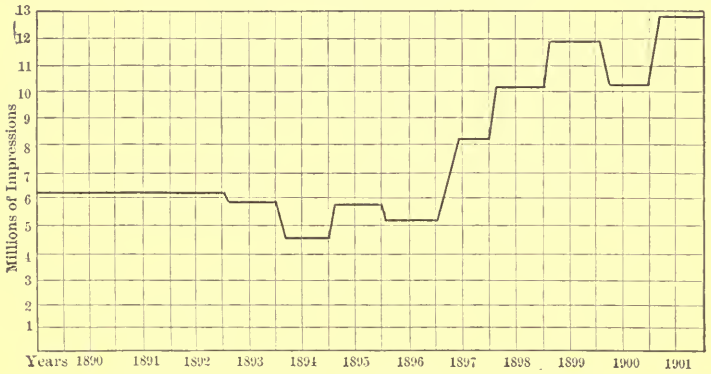


Chart showing number of impressions on tape.

observed to prevent the tickers being placed in bucket-shops. Besides the stock tickers, there are one hundred machines reporting the grain and produce quotations of the New York Produce Exchange, one hundred giving the quotations of the Chicago Board of Trade, fifty giving the quotations of the Cotton Exchange, and twenty-five reporting the quotations of the Coffee Exchange. There are also upward of seven hundred other tickers supplying financial, sporting, and general news. Some of these tickers print the news on a broad ribbon of paper just as if it had come from a typewriter. Outside of New York there are twenty cities which have ticker services of their own. No better proof is needed of the universality of speculation.

The Stock Exchange reports, but does not guarantee its

quotations. Every day at the close of the market, a printer, as a private business enterprise, publishes a complete record of the day's transactions. This is a semiofficial but not an official quotation list. The printer has the authorization of the Exchange, and he is obliged quickly to correct every error. The list as a matter of fact is correct, but it is not an official record. Moreover, the Exchange keeps no official statistics. The assistants of the Secretary, Mr. Burnham and Mr. Burns, have for twenty years kept a record of total stock and bond sales by days, weeks, months, and years, but this has been done as a matter of convenience to the financial writers and does not carry the stamp "official."

Of the value to Wall Street of the telegraph it is hardly necessary to speak, so universal has become the use of this great tool of business. Dr. Norvin Green, a few years ago, estimated that one person out of sixty in the United States made use of the telegraph, and that 46 per cent of all the messages transmitted applied to speculative transactions. In this estimate, however, he included messages relating to the race-tracks. The percentage of speculative messages has undoubtedly increased since this estimate was made. As Wall Street is the hub of the great wheel of speculation, the extent of the use of the telegraph there is obvious.

Many brokers lease wires to connect their Wall Street offices with branches in other parts of the city and country. One firm leases twelve private wires, paying the telegraph company $55,000 a year for this service. Another firm paid last winter a large sum for a private wire connecting with a branch at Palm Beach.

The cable may be said to have almost revolutionized the commerce of the world. The transactions and prices of one market are, by its use, now known simultaneously in the markets of every other country. Distance and time have been annihilated. "We are of opinion," says Arthur Crump, in his Theory of Stock Speculation, "that the com-

plete communication that is now established between the commercial and monetary markets will tend gradually, if not rapidly, to diminish the effect of the commercial crisis."

The cable has put every market on a contemporaneous basis. The death of McKinley at Buffalo and that of Cecil Rhodes in South Africa was known in every great city of the world almost as soon as each event occurred; but seventy-five years ago the news of the death of Nathan Meyer Rothschild was carried to the London Stock Exchange by carrier pigeons. Several London brokers then maintained private systems of carrier pigeons connecting them with Paris. This was the early substitute for the cable.

James K. Medbury, writing three or four years after the establishment of the first working cable in 1866, the one laid eight years earlier having broken down, said that New York brokers were then paying $1,000,000 a year for London despatches. Rates were very high in 1866. Twenty words to London cost $100, as compared with $5 to-day, and George Stoker, the cable-packer, began, by a system of codes, to pack several messages into one. In 1902, according to Vice-President Ward of the Commercial Cable, fully 95 per cent of all cable messages are written in codes, so constructed as to make one word do the work of five and even twelve. Elaborate codes have been constructed, and by the aid of the Western Union Code book one can cable and telegraph to any part of the world, securing economy with secrecy. Many concerns, moreover, have private codes.

The manager of one of the leading cable companies estimates that thirty per cent of all the cable business of this country emanates from New York. How large Wall Street's share of this is may be judged from the fact that on an average there are one thousand Wall Street cable messages a day. While most cable messages are short, averaging four to six words, they tell a great deal. A banking house

will sometimes pack a dozen or more cable transfers of money into one message. For the arbitrage business an express wire is needed. A cable company sets aside one of its London cables, during business hours, for this work. In the new Exchange building telegraph and cable messages will be sent by pneumatic tubes direct from the Board room to the telegraph offices.

In no other part of the world is the telephone put to such general and important use as in Wall Street. Of the seventy-five thousand telephones on Manhattan Island, more than one-fifth are in offices below City Hall. About five hundred of the members of the Stock Exchange maintain private telephone connection to the Board room. Practically every order executed in the Exchange is received by the Board member from his office over the telephone, and as soon as the order is executed he reports the sale, the price, and the name of the other party to the transaction over the telephone. Business aggregating often over $100,000,000 a day is thus actually transacted by telephone —a most impressive proof of the value of this invention, now in use only twenty-five years. In the new Exchange elaborate provision has been made for an even more extended use of the telephone. Notwithstanding the noise and confusion on the floor, and the fact that many brokers are shouting through the telephone at the same time, mistakes are very rare. One was made a short time ago when a broker mistook an order to buy as one to sell. The error cost him thousands of dollars. The mistakes over the telephone, however, are probably no greater than occur in written communications.

Wall Street is always eager for the latest news. It is not content to rely on the morning and evening editions of the daily papers, or even upon the elaborate articles of the financial press. It must have the news the instant it develops. News is the very air that speculation breathes. To supply this need, two news agencies exist in Wall Street,

one that of the New York News Bureau, and the other that of Dow, Jones & Company, founded by Charles H. Dow, one of the first to give a scientific form to stock-market reports. These two concerns issue every few minutes what are called the News Slips, which in the case of one firm are printed on yellow paper and in the case of the other on white. These slips are of convenient size, are printed on rapid presses, and are distributed to subscribers by an army of messengers. The brokers keep the slips in pads, thus having at all times a complete record of the day. The whole world is covered by the slips and every item of general news is given, but especial attention is paid to railroad earnings, crop reports, and other matters bearing directly upon the market.

The first regular daily stock market report appeared in London in 1825, and the New York papers were quick to copy after their London contemporaries. It has only been within a generation, however, that the market report has become almost a science requiring mastery not only of the current influences affecting speculation, but also of the fundamental economic principles underlying business.

The market report performs this special service for the banker, the broker, and the operator. It saves him much of the trouble and time of analyzing reports and statements, and of interpreting movements. This is the special function of trade journalism. The business man would require a large reference library and several clerks to obtain for himself the information which is now furnished for him by the experts who write the leading market reports. To William Dodsworth the Street owes no small debt for elevating the standard of financial journalism.

It was recently computed by the New York Times that the commercial and financial articles and market reports published every year in the daily, weekly, and monthly publications of this country would make nearly two hundred and seventy-one million books of the size of David Harum.

More than one-fifth of everything published relates to business.

As long ago as 1692 J. Houghton published in London a weekly review of the commercial operations of that time, and it was from this, one of the earliest of financial publications, that Macaulay, many years later, obtained the materials for his account of the stock speculations near the end of that century.

CHAPTER XI

LANGUAGE OF WALL STREET

Every trade has its own vernacular of technical terms, but the language of Wall Street is especially full and rich. It has in addition to many technical words an argot of slang, often very expressive of the meaning to be conveyed, but sometimes puzzling to the uninitiated. So many are its technical and slang terms that glossaries have been published giving definitions. One of these contains a list of four hundred words and phrases in common use in the Street, and even this is not complete. The significance of the more important of the terms is indicated in appropriate places in the different chapters of this book as being more convenient for the reader, but it is necessary to bring some of them together so that their related meaning may be better understood and appreciated.

Wall Street employs many terms to describe the different persons engaged in the stock and money markets, in speculation and investment. Thus there are bankers, brokers, principals, investors, speculators, operators, professionals, manipulators, lambs, the public, insiders, outsiders, bulls, bears, plungers, scalpers, room traders, specialists, cliques, combines, pools, and syndicates.

Other terms apply to the character of the stock-market. This market, we are told, is either strong or weak, firm, steady or soft, rigged or stagnant, active or inactive, in a flurry or panic or boom. Prices rise and fall, advance and decline, rally, recover, react, drop, and slump. They advance

and decline by points. A stock is cornered, pegged, manipulated, pyramided, or ballooned.

Other terms describe the position of different classes of persons in the market. Bulls and bears are either long or short. They have straddled or hedged. They have loaded or covered or realized, as the case may be. They have taken a flier or have been frozen or wiped out. Shorts may be squeezed. The lambs may be sheared. The bears may make a drive or they may be gunning a stock. Insiders may be planning a deal. The broker may be kite-flying. The speculator may have bought a put or call or spread. The banker may make a specialty of arbitrage business. The customer may give a stop order. He may have coppered a tip. The pool may be selling out. The syndicate may be washing sales by matched orders through curb brokers in order to market watered stock.

Other terms apply to the routine of the broker and the various tools he employs. He executes an order. He demands more margin from his customer. He makes out a comparison or exchange slip and makes delivery. He clears his stock. He hypothecates his security. He keeps his balance good at the bank. He gets his checks certified. He carries his securities on loans. He renders a statement. He consults the tape and the news slips and the bank statement. He will not bucket-shop his business or accept discretionary orders. He will not split his commissions. If he suspends, he is sold out under the rule.

Something must be said in further explanation of these terms. The terms, speculator and operator, are practically synonymous, except that operator generally applies to a professional. A professional may or may not be a manipulator, but a manipulator is always a professional. The customer is the broker's principal. The broker is his customer's agent. Lambs are always outsiders, but not all outsiders are lambs. Public is a collective term for outsiders who do not speculate as a regular business, but enter the market in

large numbers in bull movements, and remain out of it in times of stagnation or weakness. Bulls are always long of stock. When they sell they realize or liquidate. Bears are always short in the market, and they realize their profits by covering. Scalpers are room traders who buy and sell stocks on the narrowest profit, the difference in their favor being not more than ⅛ or ¼ of 1 per cent. A tip is coppered by acting contrary to the information it conveys. A pool is a combination of operators who make a common contribution for the purchase of a stock or stocks and divide the profits, if any. A blind pool is one in which all the members are kept in ignorance of its operations, except the one who manages it. A deal is the operation resulting from a secret combination or agreement among Wall Street men to effect a certain purpose, generally of a manipulated character in the market. A corner is the consequence of bears selling more stock than is issued or than can be purchased in the market, so that they can not make delivery and are obliged to settle at high figures involving heavy losses.

A market is steady when it holds its own. It is firm when it advances, and is strong when the gains are large. It is soft when it inclines to fall, and is weak when it declines. It is inactive when the sales are decreasing, and stagnant when the volume of trading is very small. Flurries and slumps are severe breaks in prices, that do not reach the dimensions of a panic. A market is rigged when it is manipulated. It reacts from an advance. It rallies or recovers from a decline. A point is 1 per cent. A stock is pegged when its price is held at a certain figure so that it can not decline. Kite-flying is the act of unduly extending one's credit, and the term generally conveys the idea of a criminal transaction like the issue of fictitious or fraudulent paper.

Pyramiding is only possible in a bull market. A man on a slender margin buys a few shares of stock, and as the

price advances uses his profit to buy more and still more, until on the original investment of a few dollars he has a paper profit, it may be, of thousands of dollars. Thus, stories are told of men who on an original purchase of fifty shares realized profits of $200,000. Usually, however, these inverted pyramids are overturned by some sudden reaction in the market before the speculator is content to turn his paper profits into cash.

A ballooned stock is one whose market price has been unduly inflated by manipulation.

An operator has straddled the market when he has got on both sides of it at once, the same as a gambler hedges his bet. He is taking a flier when he buys or sells for a quick turn. He guns a stock or makes a drive when he tries to break its price so as to compel the longs to unload. Shearing the lambs is the Wall Street method of relieving novices of the money they have invested in speculation. The margins being exhausted, the lambs return to the slow but sure profits of their regular avocations. Wash sales are fictitious sales for the purpose of making fictitious prices.

Puts, calls, and spreads are what are called privileges; they are essentially bets on prices. When one buys a put he is practically betting that the price of a certain stock will decline. Some operators much prefer to buy puts than to sell short. When one buys a call he bets the price will advance. While the put or call specifies the number of shares to be delivered or called, there is no actual transfer of stock on them. A put is a privilege to deliver within a certain specified period a specified number of shares at a specified price. If the market declines, the holder of the put has a chance to buy the stock and deliver at the higher price named in the put, but as a matter of fact the transaction is closed by the payment of the difference in the prices. A call is the reverse of this operation. In this case the holder of the privilege can call on the person issuing it for a specified number of shares. If the market price has

advanced above the price named in the call there is a profit. A spread is a combination of put and call. The holder has a privilege to deliver at one price or to call at another. For these privileges the buyer pays a sum varying with the time, amount, and price named in the paper. If the market fails to move as he expects, the buyer of the privilege is out of pocket the amount he has paid for it.

Wall Street has a variety of words that describe certain stocks or classes of stocks. Thus there are industrial, franchise, traction, granger, and coal stocks. The "Big Four" is the stock of the Cleveland, Cincinnati, Chicago & St. Louis. The "Nickel Plate" is the New York, Chicago & St. Louis Railroad. The "Pan-Handle" is the Pittsburg, Cincinnati, Chicago & St. Louis Railroad. The "Monon" is the Chicago, Indianapolis & Louisville Railroad. When the Wall Street man speaks of "Sugar," he generally means not the raw nor the refined product, but the stock of the American Sugar Refineries Company. When he speaks of St. Paul, he refers not to the great Apostle or to the city of that name, but to the stock of the Chicago, Milwaukee & St. Paul Railroad.

When a railroad stops paying dividends, it "passes its dividend." When the books of a company have closed for the payment of a dividend, the stock sells ex-dividend—that is to say, the purchaser does not receive the dividend. A stock sells at par when its quotation is 100. It is above or below par by as much as it sells above or below 100. Carrying charges are the cost of carrying stocks bought on margin—that is, the interest paid to the broker on the amount he advances. Rights are frequently dealt in on the stock market. When a company issues new stock it generally gives its stockholders the right to subscribe at a figure considerably lower than the market price. Rights are therefore valuable and are bought and sold like stock. The terms flat and premium are used in the operation of borrowing stock as well as in other ways. If there are many

borrowers, the competition will lead them to give full value for the stock without interest; that is flat. Or if there is a great scarcity of stock the borrowing demand establishes a premium for it. If more than par is bid for a new issue of bonds, it is said that the premium is so much. If the country has suspended gold payments, gold then commands a premium over currency.

The Consol certificate is the latest of Wall Street terms. These are certificates issued by the National City Bank to represent interests in "the Consolidated Fund of the United Kingdom of Great Britain and Ireland," or, in other words, the National funded debt of England, or "consols," as they are everywhere called. The bonds are registered in the books of the Bank of England in the name of the Union Bank of London and Baring Bros. & Company, and held by them on behalf of the City Bank, which issues certificates to represent them indorsed by the Farmers' Loan and Trust Company. These certificates are now traded in as readily as consols are in London, and they may be listed by the Stock Exchange.

A term that has come into common use in Wall Street in the past five years is "communities of interests." This term is the legitimate offspring of the "gentlemen's agreement," which died and was buried some time ago. The gentlemen's agreement was understood to be an agreement between railroad magnates not to cut rates or resort to other practises resulting in wasteful competition. Gentlemen's agreements, however, were generally broken. Communities of interests are more substantial and likely to be more enduring. They consist in bringing about such relations between great moneyed powers that the interests of one are interlaced with the interests of the others, so that they shall all be directed under a common policy and for a common end. A remarkable example of a community of interests was recently reported, in which one big combination agreed to pay an amount equal to dividends on one-

fourth of its capital to another combination, which likewise agreed to pay a certain sum out of its earnings to the other. It follows that each combination has an interest in the well-being of the other, and extreme competition ceases.

There are a number of terms used in the London market that are never heard of in Wall Street, as, for instance, contango and backwardation, which refer to the charges for carrying stocks to settlement day. Jobbers is also a London term. There are no jobbers in Wall Street, but stock-jobbing is a term in frequent use to describe the operation of buying and selling stocks for speculation accompanied by intrigue or manipulation.

Many of the terms of the stock-market are as old as stock speculation itself. The two main divisions of the market have been known as bulls and bears for more than two centuries. There have been many conjectures as to the origin of these terms. As a bull lifts and throws an object up with his horns, that may be the reason of his selection as a type of speculators who buy for an uplift of prices. As a bear seeks to depress prices, his name may be derived from the verb to bear, meaning to press heavily upon. By some it is held to be derived from the adjective bare, because the bear having sold short is bare of the stock. But a century ago the Wall Street bear was described as being like the hunter who sells a bear's skin before he has succeeded in shooting the bear, and that is about as complete a description as could be given.

The argot of the stock-market has now become a recognized part of the language of commerce, and many of the terms are included in the later dictionaries.

CHAPTER XII

THE CURB MARKET

THERE seems to be a strange affinity between stock-brokers and curbstones. For nearly a century the stock-market of London was on the sidewalks and in the coffee-houses of 'Change Alley, and an active, excited market it was at times. Guizot, in his account of "the delirium which mastered all minds" in Paris at the time of the speculation in John Law's Mississippi Company, says that the street called Quincampoix, for a long time devoted to the operations of bankers and brokers, became the usual meeting-place of the greatest lords as well as of discreet burgesses. It was filled with excited throngs of men all day. It was found necessary to close its two ends with gates, which were open from 6 A. M. to 9 P. M. Every house harbored business agents by the hundred, and the smallest room was let for its weight in gold. The street was indeed too small for the business crowded into it, and the brokers were forced into the Place Vendôme and the gardens of the Hotel de Soissons, where they put up booths for the transaction of their business.

The New York Stock-Market was born on the street. The first dealings in securities were under the buttonwood tree which stood in front of 68 Wall Street, and ever since that time, except during periods of profound depression, some part of the stock-market has always been located on the sidewalks and curbs. After deserting the shade of the buttonwood tree the street brokers located themselves on

Wall Street near Hanover. During the civil war the curb market was in William Street, between Exchange Place and Beaver, and while no record of transactions was kept, it was believed that the trading in the street was heavier than that in the Exchange. It began at eight o'clock in the morning and continued until 6 P. M., or even later, and at night-time the market was transferred to the corridors of the Fifth Avenue Hotel. William Street at that time was almost continually impassable by reason of the crowd of brokers.

The curb market now has its regular meeting-place in Broad Street, between the Mills Building and the Cable Building, and in stormy weather the brokers often seek the shelter of the main corridor of the Mills Building. At other times, in cold of winter and heat of summer, a hundred or more brokers, most of them young and athletic, may be seen assembled in the street. A stranger might think that a small-sized riot had developed, so lawless seems the conduct of these brokers, but they are there for a serious purpose. There is method in their madness, and in the last four years they have transacted a large amount of business—how much no one can tell, for no records are kept. In 1899 the curb market assumed extraordinary proportions, resembling the activity of the old war times. There were days when over a hundred thousand shares were dealt in, and sales of one thousand share lots were not uncommon. In 1901 the curb market was less extensive, but still quotations were established for two hundred and sixty-three different stocks and bonds.

No securities are traded in that are admitted to dealings in the Stock Exchange, so that many of the Stock Exchange houses have regular representatives in the curb market. Here there is speculation in securities, like the stock of the Standard Oil Company, which have never applied for admission to the list of the Exchange. Here also is the brief abiding-place of stocks between the time of their issue and

of their listing. For instance, United States Steel stocks "to be issued" were traded in here before the stock was actually issued and listed.

Trading in the new bonds of the United States Steel corporation was carried on in the curb market even before the company had decided to issue them, or any one knew what form they would take, the curb operators thus speculating in hypothetical securities that might or might not be issued.

The stock of the Northern Securities Company, which, pending the judicial decision as to the legality of the company, has not been listed, is dealt in on the curb. The curb trading is mainly in industrial stocks, some of them of prominent corporations, but others that are little known and are of a suspicious character.

The freedom of the market, the absence of a habitation and a name, are in a way actually a benefit to it. There have been from time to time suggestions of leasing a room in which to give shelter to the brokers, but the fear of creating anything that might be construed as competition with the Stock Exchange has blocked any movement in that direction. So these curb brokers remain in Broad Street, in times of activity prosperous and happy, and in times of stagnation scarcely able to make both ends meet, but at all times the most picturesque spectacle which the financial center presents.

The commissions are the same as those for Stock Exchange business, but as there are no rules regulating the business, no quotations reported over tickers, although they are carried to the offices in the old-fashioned way, and no check on operations, it is necessary that a broker should know whom he is dealing with, or to get the name of a responsible principal. Moreover, a speculator desiring to buy or sell in the curb market needs to engage a trustworthy broker who will be sure to execute his orders faithfully without deviation from the actual prices. Transactions on

the curb can be made on margin only in case of well-known and established stocks, otherwise the intending purchaser may be compelled to deposit an amount to cover the entire purchase price.

Naturally such an unregulated market is more easily manipulated than that of the Exchange. It is not difficult to inflate prices there so as to make them appear worth more than their intrinsic value. It was a collapse of "ballooned" stocks on the curb in 1902 which produced almost a flurry in Wall Street, and depressed prices in the Exchange as well as in the outside market. The banks, in making loans, generally discriminate against stocks not admitted to dealings in the Exchange, but the curb brokers manage to carry their securities by means of loans secured through certain trust companies and banks in the city and through banks in the interior. It does not necessarily follow that because a stock is traded in on the curb, it should be rejected as an investment or as loan collateral, but it demands much closer scrutiny and good judgment.

CHAPTER XIII

THE BROKER AND HIS OFFICE

"He was a broker," wrote Henry Adams referring to Jay Gould in his account of the gold conspiracy, "and a broker is almost by nature a gambler, perhaps the very last profession suitable for a railway manager. In speaking of this class of men it must be fairly assumed at the outset that they do not and can not understand how there can be a distinction between right and wrong in matters of speculation, so long as the daily settlements are punctually effected. In this respect Mr. Gould was probably as honest as the mass of his fellows, according to the moral standard of the Street, but without entering upon technical questions of roguery, it is enough to say that he was an uncommonly fine and unscrupulous intriguer, skilled in all the processes of stock gambling, and passably indifferent to the praise or censure of society."

But Mr. Adams wrote this thirty-two years ago, at a time when business and political morals in New York were at a very low ebb, and, moreover, with apparently a strong prejudice against Wall Street, and with little appreciation of its great and legitimate functions in the commerce of the world.

The broker is the connecting link between buyers and sellers. He is a middleman, one who negotiates sales or contracts as an agent. The word broker is old. The early English form was "broceur." By some it is believed to be derived from the Saxon word "broc," which meant mis-

fortune; and the first brokers indeed appear to have been men who had failed in business as principals and been compelled to pick up a precarious living as agents. There are almost as many different kinds of brokers as there are lines of business. In Wall Street alone there are stock-brokers, investment-brokers, curb brokers, two-dollar brokers, grain-brokers, cotton-brokers, coffee-brokers, ship-brokers, insurance-brokers, money-brokers, foreign-exchange brokers, bond-brokers; and there are large houses which combine nearly all these different kinds of brokerage.

The stock-broker is usually a man possessed with a superior endowment of brains. No fool can last long in the Stock Exchange. The broker, whether he is the office partner or the Board member, requires alertness, a habit of quick decision, accuracy, promptness, the ability to take large risks with good judgment and to read character readily, and a capacity of keeping cool in times of excitement. He must never lose his head, as the saying is.

The broker is narrow in the sense that he looks at everything through Wall Street spectacles. A thing is good or bad, wise or foolish, just as it happens to affect the immediate interest of the Street. If, for instance, the market is depending upon a United States Supreme Court decision, the broker can not see why the decision is delayed. If there is a strike in the coal fields, he can not see why the operators and miners should be so inconsiderate as to disturb the prices of stocks. He is impatient of any consideration other than that of his own interest. Still, that is a trait of human nature by no means confined to Wall Street. But the broker is broad in another sense. The Wall Street horizon is almost as wide as the world itself.

"The operators in the gold room," wrote Horace White in his account of the gold speculation of the war time, "should be at the same time the best informed and the most intelligent business men in the country. They must have not only the best and latest information, but they must

be able to determine at once what is the economic meaning and significance of any given fact which may come to their knowledge. They must be able to resolve the most complicated problems in mental arithmetic without a moment's hesitation. If the Secretary of the Treasury has decided upon a certain measure of financial policy, or the President upon a certain measure of foreign policy; if there is a short corn crop, or a Fenian rebellion, or a war-cloud in Europe, or a heavy immigration, or a great oil discovery, or a change in the tariff, or anything else which can affect the currency or the public credit, they must be able to melt down the mass and weigh the product in terms of standard gold. This is the work of omniscience. No man can do it."

Yet Mr. White's characterization of the task of the gold-broker of a generation ago serves well to describe the work of the stock-broker of to-day. He must keep in touch with every market abroad as well as at home. He must know something of the significance of parliamentary debates and congressional legislation. He studies bank statements, railroad reports, crop estimates, statistics of foreign trade, and the forces at work in domestic and international politics. As he must give advice which may make or lose money for his customers, he is obliged to keep an intelligent watch on everything of importance that is going on. As he is not omniscient, he often makes mistakes. But his grasp of the world's affairs is firmer than that of most other observers.

The broker is usually a gentleman and dresses well and lives well. Sometimes he is something more than a broker, and becomes a power outside of his own class. Brayton Ives, a former President of the Exchange, became a noted collector of books. Another President, A. S. Hatch, was a well-known worker in church missions. Still another President, J. Edward Simmons, was President of the Board of Education and Grand Master of Masons. Another President, James D. Smith, was Commodore of the New York Yacht Club. S. V. White, besides being a

broker, is a member of the bar of the Supreme Court, and has served in Congress. Stedman is a poet. R. P. Flower was Governor of the State. Bird S. Coler served as Comptroller of the city. On the whole, brokers as a class compare well, mentally and morally, with other business men. They are always patriotic, if for no other motive than that of self-interest, for if the Government went down or suffered from domestic revolt or foreign invasion, the whole structure of Wall Street credits and values would collapse like a house of cards. During the civil war the Exchange would not admit as member any one suspected of aiding in the rebellion. The broker is proverbially generous. When he makes money fast, he spends it freely, and his contributions to charity are liberal.

As regards their relations to customers, brokers may be divided into two classes: first, those who do a strictly commission business and who are conservative in advice and dealings; and second, those who speculate on their own account as well as for their customers, who advise the taking of long chances, and who too often are bulls at top prices and bears at the bottom. It is needless to say that a wise choice of a broker is the first duty of one who is entering into the stock-market.

It is equally true that the broker should make a wise choice of a customer; for the connection between brokers and customers is as delicate as that between attorneys and clients. Indeed, some brokers use the word clients in speaking of their customers. If the customer is mean and unscrupulous, he can make much trouble and loss for his broker. It is by no means uncommon for a customer to leave his broker "in the lurch" in time of panic to bear the loss which is properly his own. Strictly speaking, the broker is simply the agent for his customer. The latter is the owner of every share of stock bought for him by the broker, although the broker is the actual holder of the stock. He holds it as security for the loan which

he makes to the customer upon it. On every $10,000 purchase the customer puts up $1,000 cash. The broker advances the remaining $9,000 and charges the customer interest, holding the stock as security for the loan. The customer's right in the stock, it has been legally determined, is "the right of redemption." He is entitled to receive the stock bought the moment he pays the balance due upon it. Moreover, he is entitled to all the dividends upon the stock accruing after the purchase, although the stock is in the possession of the broker, who may hold the same on the books of the company in his own name. The broker has the right to demand more margin from his customer, and if this margin is not forthcoming, after due oral or written notice, the broker can sell the stock for the account of the customer. What is "due notice" may depend upon circumstances.

The necessities of the stock-market require the broker to do some things which, in a strict construction of law, it might be difficult to uphold in the courts. For instance, when the broker pledges the stock he holds for his customer as security for a loan at a bank, that is rehypothecation. Moreover, it is a general principle of law that an agent employed to do a certain thing can not employ another agent to do it for him. Yet it is a common and recognized practise for brokers to employ other brokers. The man who opens an account with a broker tacitly agrees, however, to conform to the customs of the stock-market. He is willing to take advantage of the mechanism the Street has created for the transaction of its business, and must therefore not raise technical objections to its methods. Some brokers have an agreement with their customers that "accounts will be carried on margin according to the rules of the New York Stock Exchange and its members, with authority to loan or pledge the securities carried in bulk or otherwise for such sums as we may see fit."

Eliot Norton, of the New York bar, in a treatise on stock-

trading from the legal standpoint, says that when a customer gives an order to a broker it is a proposition to make the broker his agent to contract to buy or to sell, according to the rules and customs of the Stock Exchange, such securities as are specified in the order.

Let us now step into a broker's office and see what it looks like, and perhaps open an account. There are brokers who have only one customer or two, although the business of these two may be large enough to occupy his entire energies. There was a time not so many years ago when a customer who carried a line of thirty thousand shares would be the talk of the Street, but in the past four years operations have expanded, and a line of one hundred thousand, and even one hundred and fifty thousand shares a day, has been not uncommon. There are brokers with small offices and only two or three clerks, and others who hire only desk room and clear their business through other members; but the office into which the reader is conducted is one of the larger commission houses, that carry several hundreds of accounts, and lease private telegraph wires connecting with branch offices uptown and in other cities. These houses transact a general banking as well as brokerage business. They receive deposits of money, and make loans as well as buy and sell securities. They have two or three Board members, and in addition often employ other brokers. They may have representatives on the Cotton, Produce, and Coffee Exchanges, and buy and sell wheat, corn, cotton, and coffee on margins and for commissions the same as they do stocks. They employ a large staff of clerks, and their annual expenses range from $60,000 to $150,000, and even more.

As we enter the extensive offices of one of these large houses we are confronted with an arrangement of glass or wood partitions and windows, very much like a bank. Here are windows marked "Cashier," "Deliveries," "Comparisons," "Telegrams," and the like, and, looking through

or over the partitions, we see bookkeepers and clerks at work. The main principles of bookkeeping are the same in any business, but a broker's office requires a line of books and blanks peculiar to its special needs.

Here at one side is a door marked "Customers," and through this we enter a large apartment resembling the library of a private residence more than a business office. The floor is carpeted. On the walls hang oil-paintings or interesting engravings and etchings. There are upholstered chairs and couches. There are costly Oriental rugs. There are desks with writing material, tables on which are found news slips and the latest financial journals, a rack containing files of the Journal of Commerce and other daily newspapers, a bookcase holding bound volumes of the Financial Chronicle, copies of Poor's Manual for a series of years, and other books of reference. On one side are private offices of members of the firm. On the other, reaching across the wall, is a board containing movable blocks of figures with which boys are posting the quotations of stocks, grain, and cotton as fast as they come out over the tickers. Groups of customers sit in the chairs, their eyes intent on the board, where they are able to see at a glance the ever-changing position of the great markets. It is like looking through a huge kaleidoscope, such is the constant movement of prices. Not all the large offices have this arrangement of quotation boards, but many of them do. The tickers, of course, are indispensable adjuncts of every office.

As we enter this place we are conscious at once of a strange environment. If we have never before been in the speculative arena, it is as if we had suddenly entered into a new country. Here is a babel of voices: we hear, but understand not. The language seems to be English, but we might as well be listening to Chinese. It will be some time before we thoroughly comprehend the argot of the broker's office.

We will suppose that we have entered this office not merely from curiosity. We have heard the stories of marvelous gains achieved in the stock-market, and we are moved to make an investment. So we ask to see a member of the firm. The office partner greets us. The typical broker is courteous in his manner, but quick and terse in his language, sharp in the glance with which he comprehends us, and giving the impression of intense nervous force. We tell him that we wish to open an account, and ask his terms and advice.

Now, no one can make a deposit at a bank without a reference, and no one can open an account with a broker without an introduction, or some description of oneself that will take the place of a personal introduction. Name, address, and business must be made known. The broker must be satisfied as to the customer's standing before he will accept his business. In this case we say that we keep a deposit at such and such a bank, and refer to its President or Cashier. No better reference could be given. The broker may now acquaint us with the rule of the Exchange governing commissions, and the custom of the Street as to margins and hypothecations of securities. He takes our signature, and we make a deposit varying with the size of the order we intend to give and the kind of security we purpose to deal in. Having complied with the terms of the broker, we are fairly launched on the sea of speculation, or, as one Wall Street man naïvely says, "fairly engaged in the business of losing money."

Most men enter Wall Street with a predetermined idea of what they want to do. They have some tip or information in regard to some particular stock or some theory as to the movement of prices. In fact, many outsiders disregard their brokers' advice altogether, and generally suffer by so doing. But let it be understood that we are a "lamb" or a novice, in ignorance of the market, and that we place ourselves unreservedly in the broker's hands. We ask him to

take our money and invest it for us. He flatly refuses. "We take no discretionary orders," he says. A discretionary order is one in which the broker is given authority to buy or sell whatever stock he pleases at any price, the customer relying on his honor and judgment to yield him a profit. Discretionary orders and pools are common enough in Wall Street, but few Stock Exchange houses will have anything to do with them. Disappointed in this, we now ask for advice.

No two brokers adopt exactly the same policy in regard to advising customers. Some are very conservative about doing so. Others give advice freely. In this case the broker says something like this: "The Air Line stock looks cheap; it has paid 5 per cent now for two years, and its statements of earnings show steady gains from week to week. Its capitalization is less per mile than that of the Straight Western Line, which earns no more and yet is selling twenty points higher. It is beginning to advance on what seems to be good buying. I am advising my customers to buy."

We are immediately consumed with an intense eagerness to buy Air Line, and although we have no idea where the Air Line is, we say that we will take two hundred shares. The broker then directs us to fill out an order blank as follows:

NEW YORK, *March 1, 1902.*

RICHARD ROE & COMPANY, Bankers:

Buy for my account and risk 200 Air Line at 103.

JOHN DOE.

This order is immediately telephoned to the Exchange, where the Board member proceeds to execute it. In the meantime we take our seat among the other customers, and finding Air Line on the quotation board, anxiously watch the movement of its price.

As soon as the broker has bought the stock he serves us with a notice like this:

New York, *March 1, 1902.*

John Doe, Esq.,

Sir: We have bought for your account and risk 200 Air Line at 103.

Richard Roe & Company.

The name of the broker from whom the stock is purchased is also generally given.

In three or four days, it may be, we are delighted to see the stock quoted at 108, when the broker calls us to him and suggests the propriety of our taking the present profit and selling. "Money is getting tighter," he says; "the bank statement to-morrow is likely to be bad. The market looks top-heavy. Your stock is comparatively low, but it will be affected by the general decline. I advise a sale." So we write another order to sell the two hundred shares at market price, and presently are informed that they have been sold at 107½. It may be said here that in giving orders to buy or sell, if no price is named, it is always understood to be at "the market."

We now ask for a statement of our account, and find that the transaction stands like this: two hundred shares at 103 cost $20,600. The broker obliged us to deposit 10 per cent margin, or $2,060. Then in four days we sell at 107½, or $21,500. Our profit is $900 on an investment of $2,060, or nearly 44 per cent. But from this the broker will deduct his commission of $25 on the purchase and $25 on the sale, and will charge us the prevailing rate of interest on $20,600 for the four days he carries the two hundred shares for us, allowing us, however, interest on the amount of our deposit of $2,060.

Frequently an operator, in order to limit the amount of possible loss, will, in giving an order to buy, say at 110, specify that in case the price drops, say to 106, the broker shall sell without further delay. This is what is called a

"stop order." Bear operators sometimes raid the market—that is, sell it freely—in order to depress prices to a point where stop orders will be reached. This will force liquidation, and the bears are then able to cover their sales at a profit.

The amount of margins demanded by a broker depends on the character of the security traded in. An active stock that has a ready market is safe to carry on ten points margin—that is to say, at 10 per cent of the market price—while one that has little or no market is unsafe to carry on twenty-five points margin. There are brokers who, in their eagerness to get business, will take large risks by carrying stocks on slender margin, but a well-conducted office will thoroughly safeguard itself by demanding a sufficient margin in every case. If after buying a stock its price declines, the broker will call for more margin. In calculating the interest charged a customer, the broker usually averages what he pays for his time and call loans, and adds a trifle for trouble and office expenses. If the customer believes that prices will decline, he will sell short in order to reap a profit by buying at lower quotations. Then the broker borrows the stock for him from some other broker who is carrying it. In this case the customer saves the interest that attaches to a transaction on the long side, for the broker lending a stock receives full market value for it, and pays interest on the sum thus received at a rate usually lower than the bank rate. It is only when there is a short supply of stock that a premium has to be paid to secure enough to cover short sales.

The established broker's commissions for round trades, that is to say for both buying and then selling, are: $25 per one hundred shares of stock; $6.25 per five thousand bushels of grain; $10 per one hundred bales of cotton; and $20 for two hundred and fifty bags of coffee. For transactions one way the commissions are, of course, one-half the sum. The margins usually demanded on grain are

PLEASE EX

Folio 44.302

Dr. John Doe Esq - In account cu

This account has been and will be carried on margin accordin
with authority to loan or pledge the securi

DATE.			AMOUNT.			DAYS.	IN
April	29	To 30 N.Y.C. & S.L. Rec'd					
	30	" 100 Atchison 7½	7	212	50	13	15
	"	" Gov. Tax			25		
may	6	" 100 C. & O. 5 2/8	5	250	}	7	1.
	"	" 200 Rdg 1st pfd 7 7/8	7	725	}		
	13	" Int.		13	96		
			20	201	71		3.
may	13	To Balance	10	620	56		
		Long					
		100 C. & O					
		200 Rdg. 1st pfd					

Broker's state

MINE AND REPORT.

New York, May 13. 1901

ent with Richard Roe & Co., 15 Wall Street, Cr.

the rules and customs of the New York Stock Exchange and its members, carried in bulk or otherwise for such sums as we see fit.

EST.	DATE.			AMOUNT.			DAYS.	INTEREST.	
	April	29	By cash		500		14	1	16
2		30	" 30 N.Y.C. 4s L 35	1	045	65	13	2	25
	May	3	" 100 Atchison 80 1/2	8	035	50	10	13	38
3		13	Bal. Int					13	96
		"	Balance	10	620	56			
5				20	201	71		30	75
			Internal-Revenue taxes are charged as follows on all sales: Two cents per share on stocks; one cent for each $100 on products.*						

rendered to customer.

* This tax has since been repealed.

$250 per five thousand bushels; on cotton, $100 per one hundred bales: and on coffee, $325 per two hundred and fifty bags.

A customer has full control over his account at all times, provided he keeps his margins good, and it is a custom for the broker to notify him when the margin becomes insufficient by reason of the movement in prices. The customer gives the order to buy and the order to sell. The broker merely acts as his agent. But the broker is bound to protect himself. On days of sudden panic, when the banks call in their loans, and prices fall five, ten, and twenty and sometimes even thirty points in a few hours, it may be impossible to reach the customer, or the customer may purposely keep out of the way. Then the broker may throw the customer's stock on the market for what it will bring. If he does not, it is because he feels sure of his customer, or has no time in the excitement to clear out all of the accounts, or believes that the panic will soon run its course and prices return to a normal basis. Many disputes arise over the disposition of accounts on a day of panic, and every such day is generally followed by a crop of lawsuits between brokers and customers. An operator who deliberately "lays down on his broker"—that is, lets his broker carry the burden and loss of his transactions in time of panic, and fails to make good his differences—may find all doors closed against him when he seeks again to speculate.

Customers may call for statements of their accounts at any time. They are usually rendered once a month, and always when an account is closed. Some customers prefer not to have frequent statements in order to avoid compounding interest. A broker's statement is a simple matter of bookkeeping, similar to a bill or statement that is rendered by a merchant for merchandise. Brokers, however, affect different stationery as best suits their ideas. The accompanying folder is a specimen statement.

This statement shows that John Doe has bought and

sold 100 shares of Atchison at a profit of $850, less commission, interest, and tax; and has bought and is still carrying 100 shares of Chesapeake & Ohio, and 200 shares of Reading first preferred.

It has been said that there is a class of brokers who, while acting as agents for customers, also speculate on their own account, and that others prohibit all speculations by partners and clerks and confine themselves strictly to a commission basis. It would be of interest to know exactly how many members of the Exchange really resist the temptation to speculate on their own account, but of course it is impossible to find out. In a market report in a newspaper of 1835 the writer says: "One of the evil practises of the brokers is that of privately dealing in stocks as principals while they pass generally for mere agents in the Street. This practise is not permitted in the London Stock Exchange. Wood & Bogart stick to the legitimate business of executing the orders of their customers without speculating privately on their own account." The same writer intimates that some of the brokers then did what would now be called "bucket-shopping" their orders—that is to say, not actually executing them, but paying or receiving the differences in prices after a customer has closed his account. This is gambling pure and simple, an illegitimate practise carried on extensively by persons outside of the Exchange, but sternly prohibited to members, and it is in many States prohibited by law. Operators who wish to make certain that brokers are not bucket-shopping their orders can demand, as they have the right to do, to be supplied with the name of the broker on the other side of every transaction. In order to avoid the appearance as well as the reality of bucket-shopping orders, the Governing Committee of the Exchange has made a rule that where brokers have orders to buy and orders to sell the same security, they must offer the security at one-eighth per cent higher than their bids before making transactions with themselves.

The stock-broker usually arrives at his office before the opening of the Exchange, in time to consult the London prices, confer with his partners as to the day's policy, and perhaps wire a despatch of information and advice to branch offices. His day's routine then depends on whether he remains in the office or represents the firm on the floor of the Exchange. In either case he is fully occupied until after three o'clock, for besides executing orders for his customers he has to arrange for carrying the securities by loans at the bank, and look after the many details of a complicated business. After the close of the Exchange many brokers write, or have written for them, what are called "market letters," which are more or less elaborate reviews of the market with opinions as to the future of prices. These are manifolded or printed and mailed to customers. By four o'clock, and perhaps earlier, the broker is able to leave the street for his home or club. His hours are short, but exceedingly busy. His clerks follow him as soon as their daily tasks are finished, and by six o'clock the financial district is deserted by all save the janitors and their families. Silence reigns in the streets recently so thronged and busy, and the only sounds heard are of girls jumping their ropes and boys playing ball. But in times of stress and trouble the brokers' offices may be kept open until midnight, while clerks pore over the books and anxious partners arrange their affairs for the next day.

CHAPTER XIV

THE INVESTMENT BUSINESS

It was said by the late John Jacob Astor that he could hire plenty of men competent to collect the money due him from rents and other sources of income, but that it took all of his own time to see that his surplus income was well invested. The safe investment of money, by which is meant the purchase of securities or real estate for permanent holding, as a source of yearly revenue, requires time, close study, and sound judgment. Mr. Astor thought that he could depend only upon himself to do this work. That so many mistakes are made in investing money may be said, however, to be due either to too much dependence upon oneself or too much dependence upon others. A golden mean is best. Not every one can be an Astor.

As the country grows richer and has a larger surplus every year over and above the expenditures for living expenses, the more difficult becomes the task of investment, because the supply of safe investments may not keep pace with the expansion of surplus wealth. Then it is that investors take large risks buying securities of the second or third class. There soon comes a point where investment itself becomes a mere speculation, when the purchase of doubtful securities outright becomes more perilous than would the buying of high-class dividend-paying stocks on margin.

Private capitalists, estates, insurance companies, and other corporations are constantly in the market seeking

investments, and while, as compared with the speculative dealings, the investment business seems small, it is in reality very large; and there exists in Wall Street elaborate machinery for investments. There are the great banking-houses which are constantly bringing out the new securities issued by the railroads and other corporations. There are banking-houses which make a specialty of the United States bonds. These or other firms also bid for new issues of State, county, and city bonds, which, if they secure the awards, they later sell over their counters to investors. Many brokers in and out of the Exchange confine themselves exclusively to investment securities; they take no margin accounts whatever. There are brokers who make a specialty of different classes of investment, so that there exists in the Street every facility for the sale or purchase of high-class securities.

Here also comes every doubtful new scheme and enterprise seeking money for its promotion and offering stocks and bonds galore to investors. The promoter flourishes in the Street in every form. Standard investment securities are subject to fewer fluctuations in prices than speculative stocks; they are less liable to manipulation. Permanent elements of value more than transient conditions of the market govern their price.

The Wall Street man studies an investment from three standpoints:

1. Its yield in interest or dividend.
2. Its security.
3. Its duration.

A bond to command the highest price must pay a fair rate of interest, be of undoubted security, and have a long period to run. It may pay 6 per cent a year and yet be of doubtful safety or of inferior standing, like a third mortgage or income bond. Or it may pay 6 per cent and be a first-class mortgage on a property of known value, and yet have only two or three years to run. In either of

these cases its value as an investment would be much impaired, and a 3- or 3½-per-cent bond issued by a leading corporation on undoubted security, and having a long period of years to run, might command a higher price.

A generation ago even a high-class security had to pay as much as 7 per cent a year in order to command a sale, but now American interest rates have declined to the level of those of Europe. In 1865 the Government paid over 7 per cent interest on $671,000,000 of its debt, 6 per cent on $1,213,000,000, 5 per cent on $245,000,000, and 4 per cent on only $90,000,000. To-day one-half of the outstanding bonds of the United States pay only 2 per cent interest.

It is a rule that the more secure an investment the lower its rate of interest. If an absolutely safe investment pays a high rate of interest or dividend, it commands a premium which reduces the actual return on the investment to a level with the prevailing rates for securities of that class.

The premium is the price paid for a security over and above its par value. Thus, a United States 4-per-cent bond due 1925, selling at 140, pays 4 per cent on its par value of 100; at 140 it would yield to its holder 2.86 per cent. The calculation of bond values involves an intricate mathematical problem, which, however, can be avoided by the use of tables prepared by actuaries.

The bond houses become expert not only in estimating what is the theoretical value of a security as determined by its safety, its interest, and its duration, but also as to its probable market price, as governed by the supply of investment money and other conditions. These houses are prominent as bidders for State and city bonds. They will sometimes bid for an entire issue at a certain premium, and retail the same to investors at a higher price. All this requires close calculation and a sound judgment.

Instead of 7 per cent being the standard rate of interest on a safe investment, as it was a generation ago, 3 per cent

may now be said to be more nearly the earning power of money when invested in a sound security. Indeed, the Gold Standard Law of 1900 provided for the purchase by the Government of its outstanding bonds on a 2¼-per-cent investment basis, 2-per-cent bonds being issued in their place. The prevailing price of railroad bonds bears 4 per cent interest, and if of undoubted standing they command a premium. Of all the bonds listed on the Stock Exchange at the present time, 38 bear 7 per cent interest, and of these only 1 runs for as long a period as until 1936. Another runs until 1927. All the rest will mature before 1920, and 11 on or before 1908. Many of these may be retired earlier by refunding operations. The 7-per-cent bond is therefore fast passing out of existence. It will soon be followed by the 6-per-cent bond. Of these there are 112 listed, of which 84 will mature on or before 1925, and most of them will probably be retired earlier through refunding operations. Of 582 railroad and industrial bonds listed on the Exchange, 178 yielded less than 4 per cent a year at the premium at which they were quoted in November, 1901. One yielded less than 3 per cent. Only 47 yielded more than 5 per cent. Three hundred and fifty-seven yielded between 4 and 5 per cent. The bond list at that time, therefore, was upon an average 4-per-cent basis.

An examination of the Interstate Commerce report shows that in 1900 more than one-half of the stocks paid no dividends whatever, and that the average rate of the rest was 5.23 per cent. In a statement issued recently by the Merchants' Association it was said that the average rate of interest on mortgage securities is 4½ to 5 per cent. The average rate of the principal life-insurance companies is 4 per cent, and they lend at 5 per cent on the security of policies.

CHAPTER XV

THE MONEY MARKET

Addressing an assemblage of bankers, early in 1902, Lyman J. Gage, then Secretary of the Treasury, said that the nomenclature of the Street ought to be changed; and that instead of speaking of rates for money, we should use the term "rates for credit." It has already been shown that what is called the stock-market is really an income market. In like manner what is called the money market is in reality a credit market. As Mr. Gage shows, when rates for money are high, people become alarmed about the scarcity of money as indicated by these high rates, when substantially there has been no change in the volume of money, either in the hands of the people or in any under control of the banks. What ought to be quoted is not money, but credit. It is credit that is getting difficult, not actual money that is becoming scarce. Macleod, the English economist, also defines the money market as a credit market, and speaks of a bank as "a manufactory of credits."

Wall Street is not exceptional in carrying on the vast bulk of its operations on credit. More than 90 per cent of the business of the country, and indeed of the world, is conducted in the same way. The merchant, as well as the broker, goes to the bank for credit. "Commerce," said Daniel Webster, "can not exist without credit. Credit is the vital air of the system. It has done more, a thousand times, to enrich nations than all the mines of the world." Credit makes one dollar do the work of many dollars. Some

of the old prejudice against money-lenders still exists, and in certain sections of our country bankers are even now held in distrust and fear. It is the distrust and fear of ignorance.

It has been said that the man who makes two blades of grass grow where one grew before is a benefactor of his kind. Then certainly a man who can, by the credit system, multiply the usefulness of a dollar is equally a public benefactor. Money inert, unused, is of no benefit. It is only when put in use that money becomes of value. In storage it is a burden; in action a beneficence. It is never more in action than when made the basis for credit. It is for this reason that a large surplus held by the Treasury becomes an evil. The Government, least of all, can afford to be a hoarder of money. Thus the many propositions that have recently been made for the purpose of remedying this defect in our financial system. Some substitute for the Subtreasury is demanded. Economists in fact hold that money itself is only a high form of credit, a bill of exchange to facilitate commerce, though we employ as the basis of all money, gold, a product of stable and constant value that is a part of the general wealth. The hoarding of money is, therefore, a contraction of credit and a blow to business activities and national prosperity.

The extent to which the banks multiply the power of money through their system of credit is shown in a striking manner by statistics gathered from the report of the Controller of the Currency. The aggregate banking resources of the United States in June, 1901, amounted to $12,329,560,000, while at the same time the entire amount of coin and paper money was $2,483,000,000. In other words, the credit system expands nearly six times the power of every dollar. On the 8th of February, 1902, the banks of New York held deposits of more than $1,000,000,000, while the amount of actual coin and legal tenders held was a little more than one-fourth of that amount. In Great Britain,

the proportion of credits to cash reserve is even greater than in this country, and as credit is one of the principal elements of wealth, this fact explains, in part, England's immense financial power.

The capitalist is a man who uses his own money and credit in the transaction of business. A banker uses his own money and credit as well as the money and credit of others intrusted to him in the transaction of business. On the one hand, there are individuals who possess money, but have no immediate business or investment in which to employ it; so they deposit it in banks for convenience, safe-keeping, and in some instances to draw interest upon it. Other individuals are in business and need money or credit to carry it on; these go to the banks and borrow it at the prevailing rate of interest. As the broker is an agent between buyers and sellers, so the banker is an agent between borrowers and lenders. In the complexity of his affairs the modern business man, however, may become at the same time both a borrower and a lender. He is constantly depositing credits in the bank, and at the same time is drawing them out in the shape of loans.

Lending of money or extending of credits, as a business, is carried on by individuals who are known as private bankers and by corporations called banks, a name so old that there is a dispute as to its origin. The first banks served only the purpose of providing money for Government uses. Then they became depositories for safe-keeping of money, and vehicles for its transfer from one locality to another. Gradually they have assumed other functions of banking, such as the issuing, lending, and borrowing of money.

There are various kinds of banks. Savings-banks receive deposits on which they pay interest, and loan money on real estate or invest in United States bonds and other safe securities under restrictions prescribed by law. They are created primarily for the philanthropic purpose of taking the small savings of working people and investing them in

a way that will be safe and profitable. There is only one savings-bank in Wall Street, and as a class these institutions have very little connection with the Street, except that formerly, as large holders of United States bonds, they were an important factor in the market for those securities. They have, however, exchanged most of these bonds for other investments, and have thus become a factor in the investment market.

Commercial banks are institutions both of deposit and discount; that is to say, they receive deposits subject to withdrawal by check and lend on securities or negotiable paper. National and State banks are of this class. But the National banks are also banks of issue or circulation. They have the right under certain restrictions to issue notes which circulate the same as Government money. These are secured by United States bonds deposited with the Treasury Department. State banks do not issue notes, as there is a prohibitory tax of 10 per cent upon State bank circulation.

Trust companies receive and loan money like commercial banks, and can also loan on real property. Moreover, they accept and execute trusts, acting as trustees for estates and corporations. They are supposed, however, not to do a general banking business or to allow clients to draw on their deposits by check. Some of the larger companies still limit their business strictly to the original trust plan, but most of them have broadened out so as to do business the same as National and State banks, and also to underwrite securities like private bankers. They cannot, however, issue notes.

The private bankers do business much the same as incorporated banks. They receive and loan money. They act as financial agents for domestic corporations and foreign banking-houses. They underwrite new issues of securities. They issue letters of credit. They deal in foreign exchange, and most of them export and import gold when the occasion requires.

Of these various classes of money-lenders the most important are the National banks, which have become the reserve banks of the country. A statement by the Controller of the Currency shows that on December 10, 1901, the National banks in New York held as deposits of other banks and trust companies $342,224,500, the amount due to other depositors being $498,547,700. The National banks are also depositories for a heavy amount of the Treasury surplus. Practically the cash reserves of the National banks form the basis on which rests the vast output of all credit.

The National banking law creates what are known as Central Reserve and Reserve Cities, New York being the most important of these. The National banks there are obliged to maintain at all times a reserve in specie and legal tenders equal to 25 per cent of the total deposits. But they are permitted to receive as deposits, on which interest is paid, one-half of the legal reserves which National banks in other parts of the country are required to keep. These country banks, therefore, have the advantage of earning interest on one-half of their reserves, while the New York banks have the advantage of the power which comes to them as the holders of the deposits of country banks.

When it is said that the banking power of the world, in 1901, was estimated at $25,000,000,000, of which $11,000,000,000 were in the United States, and that the loans and discounts of the National banks in New York amount to one-fifth of the aggregate accommodations made by all the National banks of the country, some conception may be had of the concentration of money and credit in this center. Money has a magnetic power, and the needle of the financial compass steadily points toward New York. But while it has this power, it also has the responsibilities which attach to power; and when any section of the country is in financial need, by reason of harvested crops that must be moved to markets, or by any other cause, it is New York that must furnish most of the relief.

One of the latest developments in the financing of National banks is in the line of investments. Two or three of the large banks in New York have become heavy holders of securities, and thus important factors in the market for the buying and selling of securities, especially bonds. These securities are carried on the books of the banks as loans, and this fact is partly responsible for the remarkable expansion in the aggregate of loans to nearly $1,000,000,000.

Sixty of the National and State banks of New York are members of the Bank Clearing-House, and seventy-nine other banks and trust companies of the city, and of Hoboken and Jersey City, clear through the member banks. The Subtreasury is also a member of the Clearing-House and makes its daily exchanges there. This institution, established in 1853, and whose building in Cedar Street is one of the architectural ornaments of the city, has recently been fully described by James G. Cannon in his book on Clearing-Houses. It performs the same office for the banks that the Stock Clearing-House does for the stock-brokers. During the fiscal year ending September 30, 1901, the exchanges of the Clearing-House banks amounted to $77,020,672,493. It is obvious that if this stupendous sum represented actual deliveries in payment of checks and drafts, if each bank had to send to every other bank to make collections, and its messengers obliged to carry back the money due their bank, in specie or legal tenders, the business of New York would be so congested as to produce a blockade or paralysis. But by meeting in the Clearing-House and there ascertaining what each institution owes the others, and by a simple and ingenious method of clearances, establishing balances which are settled by cash payments, the immense business of the banks is conducted as easily and safely as if, instead of one hundred and thirty-nine banks, there was only one, and all transactions passed through its doors. It takes less than an hour to clear a day's exchanges. The $77,000,000,000 of exchanges in 1901

were settled by payments of cash balances aggregating only $3,515,037,741. In other words, the Clearing-House eliminated nearly $74,000,000,000 that would have had to be paid in actual delivery and individual settlement of every item. The percentage of balances to clearances was only 4.57. In one year it was under 3, and the average percentage since 1854 is only 4.77. The exchanges of May 10, 1901, amounting to $598,537,409, were settled by payments of balances amounting to $23,873,115. In one day in May, 1902, the Chatham Bank settled its exchanges, amounting to $1,323,694, by receiving a balance of ten cents.

But the Clearing-House has more important functions than even that of providing the machinery for clearances. It extends loans to the Government in times of National distress, as during the civil war. It assists solvent banks temporarily embarrassed and saves them from suspension. In times of imminent panic, it issues Clearing-House loan-certificates, and thus prevents what might result in a condition of general banking and commercial insolvency. The loan-certificates thus issued in times of dire emergencies are in the nature of "temporary loans made by the banks associated together as a Clearing-House Association to the members thereof, for the purpose of settling Clearing-House balances." They are a species of fiat money, circulating only at the Clearing-House, and retired as soon as the danger of panic is over. The Clearing-House establishes rates of charges for collections of out-of-town checks. It has also been more than once proposed that it should add another and still more important function, that of fixing a daily rate for call loans. A committee of bankers, it has been suggested, should be appointed to meet every day and determine what the rate of call loans should be for that day, and this rate would be binding on all the member banks and the institutions that cleared through them. The membership of this committee under such a system would be changed frequently, say once every

month. The system would give the Clearing-House much of the power now exercised by the Bank of England, which, by its rate of discount, safeguards the English money market and prevents many monetary panics. It has also been suggested that the Clearing-House should fix a common rate of interest to be paid by the New York banks on the deposits of country banks. Neither proposition has, however, been adopted, possibly through fear that the act would be interpreted as an attempt to create a monopoly in money. The Clearing-House, the banks, and the trust companies constitute what may be termed the plant of the money market. The bank officials, the private bankers, and the money and exchange brokers are the skilled workmen who operate this plant. These brokers are men who make a business of buying and selling mercantile paper or bills of exchange, while others loan the money of the banks to members of the Stock Exchange.

This brings us naturally to the point of contact between the money market and the stock-market. It has been seen that while the stock-broker executes orders for his customer on 10 per cent margin, he is obliged to pay for the securities in full upon delivery. It would be manifestly impossible for any broker to do this without borrowing money from the banks. He has extended credit to his customer; he must himself get credit from the banks. For instance, a broker buys 5,000 shares of New York Central at 162, amounting to $810,000. But he executes this order for his customer on a margin of $81,000, so that he must pay the difference, $729,000, either out of his own capital or else borrow of the banks. Necessity compels him to go to the banks. He takes the 5,000 shares of the New York Central to the banks and offers them as collateral for a loan. If he is wise, he already has an agreement with his customers enabling him to do this. The banks lend him $648,000 on the collateral at the prevailing rate of interest. With the $81,000 received from his customer and $648,000

dollars from the banks, the broker has $729,000, or $81,000 less than he must pay for the stock. This he must supply out of his own capital.

What is the net result? The customer is nominally the owner of 5,000 shares of stock, which he has, however, never seen, and which is actually in possession of banks whose very names he may not know. The interest of the banks in the stock represents 80 per cent of its value; the broker's, 10 per cent; and the customer's, 10 per cent. It does not follow that every transaction is exactly of these proportions of risk. The broker, in fact, may be able to obtain from the banks loans large enough to enable him, in connection with his customer's margin, to carry a transaction without the employment of much, if any, of his own capital. This example has been based upon the general rule, that the margin demanded by the broker of his customer is usually 10 per cent, and the margin demanded by the banks of the broker is usually 20 per cent, the percentages in both cases varying in accordance with the character of the securities. The example serves to illustrate clearly the close intimacy existing between the money market and the stock-market. The money-lenders are, in fact, the actual holders of the securities dealt in, and they have the largest interest at stake in the maintenance of values.

But this is not the only connection between the banks and the stock-brokers. Let us return to the example already given. The broker has bought stock for which, on delivery, he must pay $810,000. Now, before he can get any loans from the banks on this stock he must have the stock in his possession, so as to be able to use it as collateral for the loans. Before he can get it in his possession he must pay for it. His balance in the bank may not be more than $50,000. What is he to do?

Right here enters the new alliance between the banks and the brokers. It goes by the name of certification. The

broker, in the case instanced, draws a check for $810,000 in payment for the stock. The check is sent to the bank where the broker keeps his account for certification. The cashier or paying teller indorses the check across its face, thus certifying not only that the signature is correct, but that the bank will pay the amount of the check on presentation and identification, or when it comes to it through the operations of the Clearing-House. But it has been said that the broker has a balance of only $50,000, and here the bank is certifying to his check for $810,000. That is what is called "overcertification," and it is another form of a great system of credits on which the transactions of Wall Street stand.

Overcertification is in effect a temporary loan. There are a number of Wall Street banks—not all—that do a regular business of certifying brokers' checks, but a large proportion of this business is done by trust companies. A broker enters into a definite arrangement with one of the banks on a basis something like this: the broker agrees to keep a daily cash balance at the bank of, say, $50,000; in return, the bank agrees to certify his checks to an amount, say, of $1,000,000.

This on its face seems startling, especially as the National banking law provides that it shall be unlawful for any officer, clerk, or agent of any National Banking Association to certify any check drawn upon the association, unless the person or company drawing the check has on deposit with the association, at the time such check is certified, an amount of money equal to the amount specified in such check.

But practically this law is a dead letter. Moreover, the practise of overcertification as conducted for the benefit of stock-brokers is by no means as dangerous as it seems. The immediate cause of the Seventh National Bank failure in 1901 was, indeed, an overcertification, but the real causes were deeper seated than that. There has been no other

serious trouble caused by certifications for brokers in twenty years.

The banking institutions are very conservative and careful in transactions of this kind. They must know all about the broker, his character, good judgment, and business methods and standing. In other words, personal character is a valuable asset in Wall Street. A man's credit in the Exchange and in the banks depends largely upon it. Then the bank stipulates, in entering upon an agreement of this kind with the broker, that, while it will certify, say, to an amount of $1,000,000 on a net daily balance of $50,000, the broker must not frequently reach that limit. Moreover, he must make his deposits at the bank as frequently as he receives checks for payment for securities delivered. He can not wait until nearly three o'clock and then make one deposit for the day, but must deposit, it may be, six or seven times a day. The result is, that while the broker is receiving the benefit of large certifications in excess of his balance, at the same time he is at frequent intervals depositing other certified checks. Deposits and certifications thus go on simultaneously. The violation of the National bank law against overcertification is in most cases more technical than actual. Of course, as soon as the broker gets his stock and arranges his loan he is able to make every check good, and by his arrangement with the bank he is bound to maintain his average daily balance of $50,000, or whatever other amount may be agreed upon The larger the average balance the larger the certification.

It has been said that the practise of overcertification of brokers' checks is a technical violation of the National banking law. It may be added that the National banks are gradually withdrawing from this business, and that the State banks and trust companies are taking their place. The National banks also are beginning to adopt another system which has the merit of simplicity and freedom from illegality. They are making morning loans to brokers of

an amount that will cover their probable certification for the day. These loans are based on the "single named paper" of the broker—that is to say, his individual, unindorsed note. With such a loan the broker has to his credit a deposit at the bank sufficient for the day's business, and technical overcertification is avoided. The practical result is the same under either system. The latter has the merit of avoiding the appearance of evil.

A broker who has his checks certified has no other claim on his bank. A merchant depositing in a bank has the privilege of having his paper discounted to a certain amount proportionate to his balance. Not so the broker. He must arrange his loan on a different basis.

The amount of certification required in the operations of the stock-market is stupendous. On the deliveries made in the Stock Clearing-House transactions the certification actually required in 1901 was nearly $11,000,000,000. The Stock Clearing-House clears about 85 per cent of all the sales of stocks. The remaining 15 per cent, as well as all the transactions in bonds, must therefore be taken into account in any estimate of total certification required. The bonds alone added at least another billion, and it is safe to say that the business of the New York Stock Exchange, exclusively, in 1901, required a certification of $14,000,000,000, or an average of about $45,000,000 a day. This was over one-fifth the average daily clearances of the Bank Clearing-House.

It may be asked, What does a bank make by certifying brokers' checks? In the example given, the bank gains the use of $50,000, the required daily balance of the broker. But as the National bank is, by law, required to keep a reserve of 25 per cent, its net gain by this operation is the use of $37,500. Its profit is the interest it earns by the loaning of that amount. If it was not profitable the bank would not engage in the business.

Loans to brokers on stock and bond collateral constitute

a large proportion of the business of nearly every Wall Street bank. This business is carried on by a bank in direct contact with the stock-brokers and also through the agency of money-brokers who act as middlemen between lenders and borrowers. The bulk of the loans are made by the money-brokers, and the rate for call-money is practically established in the Stock Exchange. There is a regular place in the Board room for effecting loans, and certain members make this their exclusive business.

The banker comes to his office in the morning and ascertains exactly how his bank stands after going through the Clearing-House. If he finds he has a satisfactory surplus above the required legal reserve, he calls in one of the money-brokers and tells him to lend $500,000 or $1,000,000 or $5,000,000, as the case may be.

The brokers who act as agents for the banks in the lending of call-money on Exchange actually perform this service gratuitously. The broker is glad to do the business, as it gives him a standing at the banks and increases his facilities for arranging time loans and transacting other business on which he makes a profit.

Besides the banks, the private bankers are large lenders of money to brokers. Even some mercantile concerns lend money on stock collateral. Railroad and insurance companies are at times large lenders. Russell Sage has for many years been a heavy lender on the Street, keeping a considerable share of his fortune in cash, for profitable employment in this way.

Rates of interest have fallen greatly in the last quarter of a century. Formerly, brokers, and merchants as well, were compelled to pay as much as 2 per cent a month for credit; but as the country has grown richer, rates have declined, and call-money now only occasionally goes above 6 per cent.* In 1901 rates fluctuated between 1½ and 2 per cent in the

* It is a mistaken idea that the banks rejoice at a high rate of interest. As a matter of fact, their profit is greater when the rate is 3 or 4

THE THIRTIETH NATIONAL BANK

OF THE CITY OF NEW YORK.

NEW YORK, *Mar. 16, 1902.*

Mr. Richard Roe.

DEAR SIR:

Please send check

for $*100,000*, Loan dated *Mar. 4, 1902*,

and oblige

Yours respectfully,

WILFRED HONE,

Cashier.

Form used in calling loan.

latter part of January, and 6 and 25 per cent in June and July. When call-money rules at 1, 2, or 3 per cent, it is said to be easy; when it rises to 6, 7, or 8, it is called very firm; and if it goes to higher figures, it becomes stringent.

Call-loans are made subject to repayment on demand. Practically, however, they are one-day loans, that is, subject to call the next day. A loan made to-day is not called until to-morrow. When called, the broker has until 2.15 P. M. to pay back the money, when he recovers the stock he gave as collateral for the loan. Banks are accustomed to give ample notice in writing in some such form as that shown on page 187.

Calls are made in the morning, and the broker has several hours in which to make arrangements for repayment. It is an unwritten law of the Street that no loans are called after 1 P. M. It was estimated that fully $300,000,000 of the outstanding loans of the banks on February 8th, amounting to $918,000,000, were call-loans on stock collateral. These loans are made in the simplest way. There is no note given. The broker hands in his collateral of stocks and bonds, in an envelope on which is written his name and the securities contained therein, and their amounts, as shown in the illustration on the opposite page.

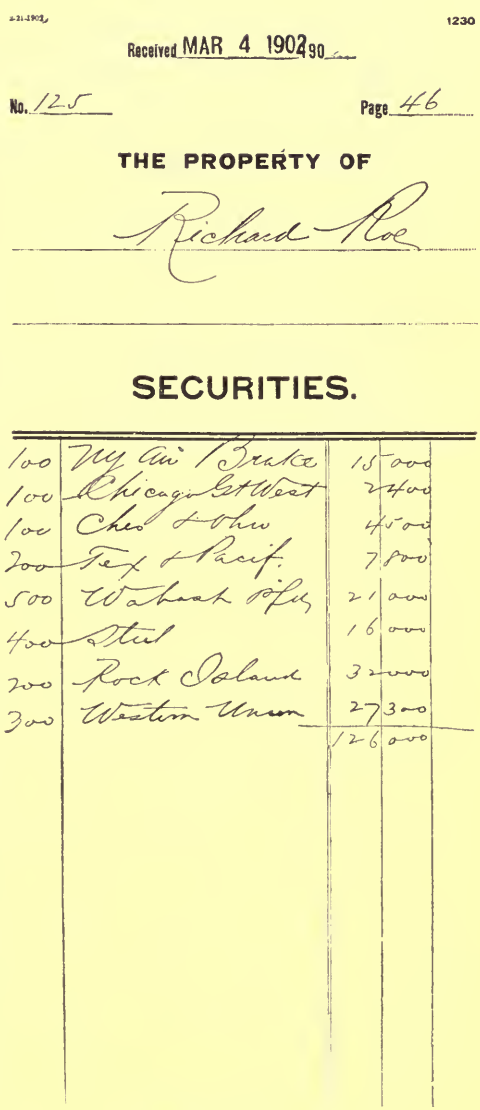
Everything above the words "The property of," namely, the date, the page, and the number, is added by the bank receiving the securities. There is no evidence on this envelope of any loan whatever. It is simply a deposit of securities. The loan envelope has been used in the Street for many years, but this particular form is, in large part, the product of conditions resulting from the imposition of war taxes on securities. A strained construction of the

per cent than when it is 25 per cent. For in the latter case, corporations and large individual depositors will withdraw their money in order to make direct loans to borrowers, thus depleting the resources of the banks. But when the rate is 3 or 4 per cent, they will keep their money in the banks, which have then the profitable use of it. Some banking institutions make it a rule never to make call-loans at more than 6 per cent.

Stamp Tax Law held that securities deposited as collateral for loans were subject to taxation, although they had been previously taxed in their sale. Such a construction of the law, if upheld by the courts, would have revolutionized the business of Wall Street.

The bank puts the envelope of securities received from the borrower in a larger envelope of its own like that on page 190.

This shows that the bank has loaned to the broker, Richard Roe, $100,000. The envelope of securities enclosed therein contained a valuation of $126,000. The bank also makes out a card for its own use covering the whole transaction. This would be in the form shown on page 191.


1230

Received MAR 4 1902 90

No. 125 Page 46

THE PROPERTY OF

Richard Roe

SECURITIES.

100	My Air Brake	15 000
100	Chicago & West	2 400
100	Chic & Nw	4 500
200	Tex & Pacif.	7 800
500	Wabash Pfd	21 000
400	Steel	16 000
200	Rock Island	32 000
300	Western Union	27 300
		126 000

The loan envelope.

THE THIRTIETH NATIONAL BANK

OF THE CITY OF NEW YORK.

No. 125 *Page 46*

Richard Roe.

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Mar. 4, 1902.

AMOUNT LOANED.		AMOUNT PAID.	
$	100 000	$	

COLLATERALS.

The bank's envelope.

1-28-1902-1 M. 863

Loan No. 125

Folio No. 46

The Thirtieth National Bank.

New York, March 4 1902

Demand Loan of $ 100000

To Richard Roe

		COLLATERALS	Price	Value	
	100	My Air Brake	150		
	100	Chi Gt West.	24	24	
	100	Ches & Ohio	45	45	
	200	Ft. W. & Pac.	39	78	
	500	Wabash Pfd	42	21	
800		Steel	40	32	
	200	Rock Island	160	32	
	300	Western Union	91	27	3
				147	

New York, March 4 1902

Received all the collaterals to the within mentioned Loan.

Record of call-loan.

The words at the bottom, "Received, etc.," are used when the loan is paid and the securities are returned. The borrower then signs the card, which becomes the receipt for the securities given back to him. It will be observed that the card makes no mention of the rate at which the loan is made, but this is added by the loan clerk in cipher.

It often happens that the borrower needs to substitute one stock for another in the collateral for the loan. He may have sold one of the stocks and desires to make delivery. The bank allows him to withdraw this security from his envelope, provided he gives another equally as good. In the instance of this loan, it appears from the card that one hundred shares of Air-Brake were withdrawn and four hundred shares of Steel added, which made the collateral stronger than before by the amount of $1,000 market value. The broker making the substitution would send to the bank by messenger the four hundred shares of Steel and the memorandum on the opposite page.

Frequently there are several substitutions in one day. In the panic of May 9, 1901, there were eleven substitutions in one loan. Substitution receipts are deposited by the bank in the big envelope in which it keeps the broker's envelope of securities. This enables the bank to trace back, step by step, the whole course of the loan and the changes in the collateral securing it.

In making loans the bank scrutinizes the collateral closely. The securities must be strictly good delivery according to the rules of the Exchange. Stocks and bonds for which there is not a constant market are generally not acceptable. The most approved collateral are the stocks and bonds of standard railroad companies, listed at the Exchange and having a high standing. There are also a few industrial companies whose stocks are equally acceptable as loan collateral. But, as a rule, most banks discriminate against industrials to this extent, that they will generally make no loan on industrial collateral alone, or if they do,

NEW YORK, *March 4, 1902*

THE THIRTIETH NATIONAL BANK

OF THE CITY OF NEW YORK

Will please deliver to the bearer:

100 Shares *Air-Brake*

"

"

"

"

and receive

400 Shares *U. S. Steel.*

"

"

"

"

Respectfully,

RICHARD ROE.

Substitution notice.

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THE THIRTIETH NATIONAL BANK

OF THE CITY OF NEW YORK.

NEW YORK, *Mar. 10, 1902.*

Mr. *Richard Roe.*

DEAR SIR:

Please send us about $*10,000*

additional Collateral to our loan of $*100,000*

dated *Mar. 4, 1902,*

and oblige

Yours respectfully,

WILFRED HONE,

Cashier.

Call for additional collateral margin.

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they charge a much higher rate of interest. When industrial stocks are accepted it is generally required that there must be railroad or other approved securities with them. In the loan to Richard Roe, as originally made, the industrial stocks amounted in value to less than one-half of the collateral, and in this calculation the three hundred shares of the Western Union are counted as industrial, simply because the Western Union is not a railroad company. It is needless to say that Government bonds always rank as the very highest class of collateral, and the banks require no margin on such security. If the market value of the securities deposited for a loan declines, the banks are obliged to call for more collateral in order to keep the 20 per cent margin good. In that case the lender will receive a notice like that shown on the opposite page.

The bank is frequently obliged to mark up the rate for its call-loan. For instance, the loan may have been made at 2½ per cent, but the market rate advances to 3, in which case the bank sends the notice shown on page 196 to the borrower.

The whole machinery of the Street, from the sale of a stock in the Exchange, its clearance through the Stock Clearing-House, its delivery to the buyer, its deposit with a bank as security for a loan, is therefore of the simplest and most direct nature. Each party to every transaction obtains the utmost of protection with the least labor and the smallest possible amount of "red tape."

The bank's protection consists in its actual holding of the collateral, and in an agreement, which its customer signs, enabling the bank to sell the securities, without notice, in case the borrower neglects to respond to the call for payment of the loan. This agreement is generally in the following form:

Know all Men by these Presents, That the undersigned, in consideration of financial accommodations given, or to be given, or continued to the undersigned by THE THIRTIETH NATIONAL BANK OF THE CITY OF NEW YORK, hereby agree with the said Bank that

THE THIRTIETH NATIONAL BANK

OF THE CITY OF NEW YORK.

NEW YORK, *Mar. 5, 1902.*

Mr. *Richard Roe.*

DEAR SIR:

If agreeable, we mark your loan of

$*100,000,* dated *Mar. 4, 1902,*

$ dated

$ dated

as renewed at *3* per cent from this date.

Please confirm our action by stamping perforated slip, which kindly return to us.

Yours respectfully,

WILFRED HONE,

Cashier.

We mark rate of interest on your Loan *3* per cent from this date.

per

Date *Mar. 5, 1902.*

Notice of increased rate of interest.

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whenever the undersigned shall become or remain, directly or contingently, indebted to the said Bank for money lent, or for money paid for the use or account of the undersigned, or for any overdraft or upon any indorsement, draft, guarantee or in any other manner whatsoever, or upon any other claim, the said Bank shall then and thereafter have the following rights, in addition to those created by the circumstances from which such indebtedness may arise against the undersigned, or his, or their executors, administrators or assigns, namely :

1. All securities deposited by the undersigned with said Bank, as collateral to any such loan or indebtedness of the undersigned to said Bank, shall also be held by said Bank as security for any other liability of the undersigned to said Bank, whether then existing or thereafter contracted ; and said Bank shall also have a lien upon any balance of the deposit account of the undersigned with said Bank existing from time to time, and upon all property of the undersigned of every description left with said Bank for safe keeping or otherwise, or coming to the hands of said Bank in any way, as security for any liability of the undersigned to said Bank now existing or hereafter contracted.

2. Said Bank shall at all times have the right to require from the undersigned that there shall be lodged with said Bank as security for all existing liabilities of the undersigned to said Bank, approved collateral securities to an amount satisfactory to said Bank; and upon the failure of the undersigned at all times to keep a margin of securities with said Bank for such liabilities of the undersigned, satisfactory to said Bank, or upon any failure in business or making of an insolvent assignment by the undersigned, then and in either event all liabilities of the undersigned, to said Bank, shall at the option of said Bank become immediately due and payable, notwithstanding any credit or time allowed to the undersigned by any instrument evidencing any of the said liabilities.

3. Upon the failure of the undersigned either to pay any indebtedness to said Bank when becoming or made due, or to keep up the margin of collateral securities above provided for, then and in either event said Bank may immediately without advertisement, and without notice to the undersigned, sell any of the securities held by it as against any or all of the liabilities of the undersigned, at private sale or Brokers' Board or otherwise, and apply the proceeds of such sale as far as needed toward the payment of any or all of such liabilities, together with interest and expenses of sale, holding the undersigned responsible for any deficiency remaining unpaid after such application. If any such sale be at Brokers' Board or at public auction, said

Bank may itself be a purchaser at such sale free from any right or equity of redemption of the undersigned, such right and equity being hereby expressly waived and released. Upon default as aforesaid, said Bank may also apply toward the payment of the said liabilities all balances of any deposit account of the undersigned with said Bank then existing.

It is further agreed that these presents constitute a continuing agreement, applying to any and all future as well as to existing transactions between the undersigned and said Bank.

.....

Dated, New York, the.....day of.....19.....

Most brokers seek to secure a certain proportion of their required line of credit on time. Thus time-loans are made. These are loans based on stock and bond collateral, but are not subject to call until the expiration of a certain specified number of days, when they must be paid or renewed. Formerly, time-loans were made by months, but within two or three years a change has been made from months to days. Thus there are thirty-day, sixty-day, and ninety-day loans. The rates for time-loans are generally higher than for call,* and banks are commonly very conservative in making such loans for long periods. The bank's deposits being subject to withdrawal on demand, it follows that it can lock up only a comparatively small part of its resources in the form of time-loans. The stock-broker, though paying more for his credit than he would on the call-loan basis, escapes the liability of having all his loans called at one time.

It has been said that when a broker pledges as collateral for a bank loan the securities which he has bought for a customer, and which the broker holds as security for a loan made to the customer, that is rehypothecation. But this is the universal practise of the Street, to which every operator in stocks tacitly agrees. The illegality of the operation

* Except in times of severe stringency in the money market.

can be avoided by an agreement between brokers and customers. The law on this subject was expounded a few years ago by Justice Williams in the Appellate Division of the New York Supreme Court. He held practically that when securities carried on margin for a customer were pledged with other securities for loan for a greater amount than the indebtedness of the customer on account of the purchase of the securities, and without the broker retaining in his possession other securities of a like kind and amount, that was conversion by the broker of the customer's property. Hence the necessity for an understanding between brokers and customers on this subject. If a customer will not agree to this absolutely necessary use of his securities, he might as well keep out of the stock-market.

CHAPTER XVI

THE BANK STATEMENT

It need scarcely be said that the money market is closely watched by every stock-broker and operator. The stock-market is keenly sensitive to changes in the money rate. It is true that sometimes the stock-market asserts its independence and advances in spite of high rates for loans, but, as a general rule, any shortage in the supply of credit checks stock speculation and produces declines in prices. Any sudden or severe contraction of credits will produce a "flurry" in the market—that is, a sharp break in prices, attended with more or less excitement. If the contraction is so extreme as to make it impossible to arrange loans, large blocks of securities, which can not be carried, are dumped on the market for what they will bring, and the Street then has a panic. Wall Street therefore scrutinizes the Bank Statement with the utmost care.

This statement is issued by the Clearing-House once a week, on Saturday, a little before half past eleven. If Saturday is a holiday, it is issued on Friday. It gives the condition of all the member-banks at that time, their loans, their deposits, their cash holdings, and their circulation. The statement is made up on a system of averages. For instance, the bank ascertains what its outstanding loans were on each day of the week, and reports the average of these items to the Clearing-House. It does the same with its deposits and cash holdings. The statement, therefore, does not present the actual condition of the banks on Saturday,

but their average condition for the week. Their actual condition may be better or worse. It follows that if a large amount of currency should be received on Friday, it would count only for one day in the week's average of cash holdings, and the actual condition of the banks on Saturday would be better than the average statement indicated. If there had been a large withdrawal of gold on Friday, for export, the loss would count only for one day in the week's average, which would make the statement appear better than actual conditions.*

At half past eleven on Saturday every Wall Street man watches the tape for the report from the Clearing-House. What he gets at first is a mere summary of the statement, and an account of the gains and losses as compared with the following week. For example, taking the statement of February 21, 1902, the first announcement was that the surplus reserve had decreased $1,104,200; loans had increased $4,752,900; specie had increased $343,500; legal tenders had decreased $398,900; deposits had increased $4,195,200; and circulation had decreased $59,800.

This, for the time being, is sufficient for the Street. One half hour still remains of the stock-market, which closes at noon on Saturday, and the operator knows how the banks, as a whole, stand, and can act accordingly. But both banker and broker will desire, especially in critical periods, to know more of the situation, and so will study the detailed statement, which is given out soon after the summary, but which is not sent over the tape. The detailed statement gives the condition of each bank, but requires analysis for a complete understanding. The state-

* A striking illustration of the effect of the law of averages upon the Bank Statement was given in September, 1902. The statement of September 20 reported a loss in cash of $7,300,000, while the actual loss, so far as it could be estimated, was only $3,600,000. The statement of September 27, on the other hand, reported a gain in cash of $1,790,000, while the apparent loss was $4,000,000. The former statement reported a deficit in reserves; the latter a surplus.

BANK STATEMENT WITH COLUMN ADDED SHOWING AMOUNTS HELD ABOVE OR BELOW LEGAL RESERVE

Statement of the Associated Banks of the City of New York. From Reports to the New York Clearing-House, as required under Section 16 of the Constitution. For Week ending Friday, February 21, 1902

Banks.	Capital.*	Net profits.*	Loans.	Specie.	Legals.	Deposits.	Amounts above or below legal reserve in thousands.
Bank of N. Y. Nat'l Bkg. Assoc'n	$2,000,000	$2,218,100	$20,805,000	$3,703,000	$1,652,000	$21,460,000	−10
Bank of the Manhattan Company	2,050,000	2,106,400	21,362,000	6,138,000	2,092,000	26,395,000	÷1,631
Merchants' National Bank	2,000,000	1,176,400	13,950,400	3,044,500	1,570,500	16,859,400	+400
Mechanics' National Bank	2,000,000	2,394,800	13,949,000	3,451,000	1,124,000	15,512,000	+697
Bank of America	1,500,000	3,177,500	22,937,600	3,635,100	2,963,100	26,204,800	+47
Phenix National Bank	1,000,000	273,500	4,838,000	1,174,000	287,000	4,803,000	+260
National City Bank	10,000,000	6,603,300	122,145,200	29,596,400	7,081,100	138,513,300	+2,049
Chemical National Bank	300,000	7,047,700	25,436,800	3,872,400	2,298,600	24,513,800	+43
Merchants' Exchange Nat'l Bank	600,000	261,500	5,330,300	941,500	593,600	5,807,900	+83
Gallatin National Bank	1,000,000	2,004,600	9,415,100	994,600	905,500	7,558,400	+11
Nat'l Butchers' and Drovers' Bank	300,000	68,300	1,320,100	343,800	81,400	1,583,100	+29
Mechanics' and Traders' Bank	400,000	130,400	2,943,000	408,000	310,000	3,334,000	−116
Greenwich Bank	200,000	175,800	895,900	206,000	155,200	905,700	+135
Leather Manufacturers' Nat'l Bank	600,000	517,300	4,203,500	755,900	231,200	3,977,800	−7
Seventh National Bank	1,700,000	18,500	5,693,100	1,104,800	181,400	5,214,000	−17
American Exchange Nat'l Bank	5,000,000	3,378,400	30,400,000	5,104,000	1,628,000	24,935,000	+498
National Bank of Commerce	10,000,000	7,155,700	82,120,700	8,826,600	7,748,400	74,017,200	−1,929
National Broadway Bank	1,000,000	1,638,300	7,332,100	1,509,200	424,200	6,978,200	+189
Mercantile National Bank	1,000,000	1,386,500	15,288,100	2,090,500	1,803,700	16,182,500	−150
Pacific Bank	422,700	519,600	3,057,200	338,400	421,700	3,740,900	−175
Chatham National Bank	450,000	997,200	6,055,200	706,600	808,300	6,100,900	−10
People's Bank	200,000	353,600	2,139,600	253,900	433,500	2,666,300	+21
National Bank of North America	‡2,000,090	‡2,100,000	16,969,000	2,943,100	1,405,100	16,653,500	+185
Hanover National Bank	3,000,000	5,641,200	55,294,200	12,333,300	5,635,500	65,270,500	+1,652
Irving National Bank	500,000	491,800	4,394,000	734,600	495,000	4,650,000	+68
National Citizen's Bank	†1,550,000	†800,700	5,836,400	1,074,600	331,700	5,922,200	−84
Nassau Bank	500,000	289,400	2,616,400	332,900	458,500	3,174,400	−2
Market and Fulton Nat'l Bank	900,000	1,038,500	6,641,400	1,093,700	744,800	7,100,700	+64
National Shoe and Leather Bank	1,000,000	228,200	3,980,200	1,193,600	151,700	4,724,300	+163

Corn Exchange Bank	1,400,000	1,852,000	23,085,000	4,757,000	1,966,000	27,951,000	−264
Oriental Bank	300,000	415,400	2,057,000	184,700	255,900	1,936,000	−43
Importers' and Traders' Nat. Bank	1,500,000	6,224,900	23,720,000	4,111,000	1,198,000	21,632,000	−99
National Park Bank	2,000,000	4,080,000	50,331,400	18,300,900	4,153,900	68,182,200	+5,409
East River National Bank	250,000	163,000	1,210,000	205,200	198,700	1,380,400	+59
Fourth National Bank	3,000,000	2,615,500	23,696,900	5,432,500	2,268,200	27,788,200	+753
Central National Bank	1,000,000	601,700	10,906,000	1,914,000	919,000	13,123,000	−448
Second National Bank	300,000	1,052,000	9,486,000	1,524,000	1,129,000	10,395,000	+55
First National Bank	10,000,000	11,354,400	87,239,700	18,925,000	1,505,400	85,320,700	−900
New York Nat'l Exchange Bank	500,000	330,900	4,724,600	836,100	366,000	4,585,000	+56
Bowery Bank	250,000	759,900	2,864,000	425,000	304,000	3,177,000	−65
New York County National Bank	200,000	598,400	3,745,700	764,000	380,000	4,492,100	+21
German-American Bank	750,000	416,800	3,337,900	593,400	272,100	3,327,000	+33
Chase National Bank	1,000,000	2,688,000	41,954,200	11,370,400	2,018,100	50,911,900	+661
Fifth Avenue Bank	100,000	1,424,100	9,467,700	2,516,100	200,400	10,579,800	+71
German Exchange Bank	200,000	586,700	2,241,000	218,600	916,800	3,305,900	+310
Germania Bank	200,000	836,300	3,182,300	412,700	588,300	4,909,200	−226
Lincoln National Bank	300,000	1,037,900	11,166,900	1,364,500	2,061,000	13,008,900	+173
Garfield National Bank	1,000,000	1,204,800	7,438,500	1,648,400	314,900	7,649,100	+51
Fifth National Bank	200,000	375,700	2,120,400	516,200	159,300	2,357,200	+86
Bank of the Metropolis	300,000	1,153,700	7,600,900	1,613,800	417,900	8,632,300	−127
West Side Bank	200,000	451,000	2,709,000	451,000	346,000	3,015,000	+44
Seaboard National Bank	500,000	1,037,400	13,679,000	2,986,000	1,508,000	16,651,000	+332
Western National Bank	2,100,000	2,548,500	41,396,300	10,498,300	2,392,500	49,481,500	+519
First National Bank, Brooklyn	300,000	540,700	4,164,000	477,000	726,000	4,388,000	+106
Liberty National Bank	500,000	776,700	6,998,900	1,440,800	425,000	7,044,500	+105
N. Y. Produce Exchange Bank	1,000,000	420,800	4,202,400	672,400	361,400	4,066,100	+17
New Amsterdam National Bank	250,000	659,800	7,509,600	1,432,600	687,800	8,775,900	−72
Astor National Bank	350,000	430,900	4,203,000	914,000	258,000	4,360,000	+82
Hide and Leather National Bank	500,000	382,500	2,969,800	489,300	112,000	2,289,500	+29
Total, National banks	$73,650,000	$86,150,200					
Total, State banks	9,972,700	15,069,400					
Totals	$83,622,700	$101,219,600	$936,757,600	$194,898,900	$72,426,300	$1,019,474,200	
			Increase.	Increase.	Decrease.	Increase.	
Reserve $1,104,200 decrease.			4,752,900	343,500	398,900	4,195,200	

* As per official reports.—42 National banks, Dec. 10, 1901; 17 State banks, Dec. 3, 1901. † As on Jan. 1, 1902. ‡ As on Feb. 7, 1902.

ment issued Friday, February 21, 1902 (Saturday was a holiday), is of interest because the totals of deposits and loans reported were the largest up to that time, the deposits being $1,019,474,200, and the loans $911,800,900. Omitting the column of circulation, and adding another column showing how much above or below its legal reserve each bank was—something which the statement does not give—the statement of that date is shown on pages 202 and 203.

The careful student of the Bank Statement will examine it to ascertain which of the large banks have increased or reduced their loans, which have gained or lost in cash, and which are above or below their legal reserves. To ascertain the legal reserve of a bank, divide its deposits by four, and the difference between this and its specie and legal tenders added together shows whether it is above or below the legal requirement. This statement shows that although loans as a whole expanded $4,752,900, four big banks—the First National, the Bank of Commerce, the Corn Exchange, and the American Exchange—reported an aggregate loan reduction of $6,155,000. The counterbalancing increases were widely distributed, the Hanover Bank alone reporting an expansion of $2,127,000. The Bank of Commerce, the First National, and the American Exchange reported a decrease in cash of $7,387,000, while the Chase, the Hanover, the Fourth, the City, and the Manhattan Banks reported gains amounting to $7,361,000.

The four most important items in the Bank Statement are:

1. The cash holdings which are ascertained by adding the specie and legal tenders. The cash holdings constitute the reserves of the banks.
2. The outstanding loans.
3. The deposits.
4. The surplus reserve.

Every National bank is required by law to hold specie and legal tenders amounting to at least 25 per cent of its

deposits. The moment it falls below that amount it must stop discounting until this reserve is made good. State banks are by law required to keep only 15 per cent reserve, but the Clearing-House, several years ago, adopted a rule requiring all State bank members admitted after that date to keep 25 per cent reserve, the same as the National banks. As a matter of fact, all members, State and National, strive to keep cash holdings at a point equal at least to one-fourth of the deposits. When the cash holdings exceed the reserve required, there is a surplus; when the cash holdings fall below the required reserve, there is a deficit. The surplus reserve, therefore, is the difference between the required reserve and the actual reserve when the latter exceeds the former. There may be an increase in the surplus reserve when there is a decrease in the reserve, which is accounted for by a reduction in the amount of reserve required to a larger sum than a reduction in the cash holdings. For instance, on May 17, 1902, the reserve decreased $1,132,900, but the reserve required decreased $6,018,425; so that there was an increase in the surplus reserve of $4,885,525.

In the foregoing statement of February 21 there were forty banks that showed a surplus and nineteen that showed a deficit, but the banks as a whole reported a surplus reserve of $12,456,650, which was 26⅜ per cent of the total deposits.

The Street keeps the surplus reserve steadily in view; in fact it may be said to give an exaggerated importance to it. The line between a surplus and a deficit is regarded as a sort of a "dead line." When the surplus reserve declines too close to the line the Street begins to show signs of alarm. There is talk of stringent money and bear prices. If there is a large surplus reserve, money is easy and Wall Street feels secure. Yet too large a surplus may be a bad sign, as it indicates a small demand for money; it may therefore spell stagnation. If the statement as a whole reports a deficit, Wall Street may have a flurry, even a panic.

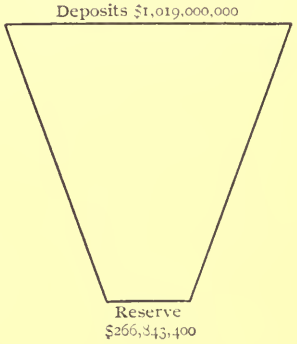
Yet even a deficit may be no just occasion for alarm. The Bank Statement has at times reported deficits when the situation was sound and the Street in a calm. For instance, on October 5, 1889, there was a deficit of $1,688,050, which was increased the following week, but there was no special convulsion in the market.* Still it is true that in time of financial distress, as in the fall of 1890 and in 1893, the first clear sign of trouble is a deficit, the cash holdings are less than the required reserve. With sound banking, however, there is no reason why a 25-per-cent reserve should be adhered to, as with loans made on strictly first-class security a bank might be safe with 5-per-cent reserve. With loans made on wildcat securities, a reserve of 25 or even 50 per cent is insufficient.

The 25-per-cent reserve is a requirement not for sound but unsound banking. It is a protection not for the strong, but the weak. For this reason there have been suggestions that the Clearing-House should require a general reserve amounting to 30 per cent. But it would be difficult to say what is the point of safety or peril in a reserve. The English joint-stock banks usually keep cash reserves of about one-tenth of their credits, and the Scottish banks are able to maintain their credits upon even a smaller reserve. Some of the strongest trust companies in New York are able to conduct their business on reserves of 5 to 7 per cent. In May, 1902, a calculation showed that the deposits of all the

* A deficit of $1,642,050 was reported by the Bank Statement of September 20, 1902, when 36 of the 59 reporting banks held less than the required legal reserve. Yet the country was prosperous as never before in its history. The mercantile situation was sound and active. The depletion of the bank resources was due to interior demands for currency to move the crops, to Treasury absorptions, and to speculative activity. The deficit lasted only one week, when the reserve was restored to a surplus. The deficit had the effect of producing liquidation in stocks which was not checked by the restoration of the surplus, and which required Treasury aid to stop. In seven of the last twenty years there have been periods of deficits in the New York bank reserves. Three of these were years of panic.

banks and trust companies in Greater New York, taken together, were safe-guarded by a reserve of less than 15 per cent. The issue has been raised by conservative bankers, however, whether the reserves of the trust companies were not altogether too low, especially the reserves of those which do a general banking business, holding their deposits subject to withdrawal by checks.

The National banks raise this issue on two grounds: First, they argue that they are compelled to keep 25-per-cent cash reserve in unfair competition with trust companies which are doing exactly the same kind of business, and some of which maintain reserves of only 1 per cent. Second, they advance the point of safety, the expansion of credits being considered too large for the basis of cash.



Bank credits may be represented by an inverted pyramid. Now, an inverted pyramid is employed as the common type of insecurity, but as Columbus stood an egg on end by flattening it a little on the end, so the inverted pyramid of credit may be made secure, provided the point on which the pyramid stands be flattened a little; or, in other words, the credits are safe if the reserves are ample. The inverted pyramid, as it would appear from the Bank Statement already given, shows something like the above.

But if the bank reserves at the bottom must carry, at the top, not only the $1,000,000,000 of credits of the banks, but also the credits of the trust companies, amounting to, say, $700,000,000 more, it follows that the inverted pyramid may become top-heavy. Hence the significant action taken recently by the Bank Clearing-House, providing that every

institution hereafter permitted to clear through a member bank "shall be required to keep in its vaults such cash reserve to its deposits as the Clearing-House Committee may determine." While this action now extends only to new trust companies, it is believed that it is the entering wedge to a requirement that all trust companies, old as well as new, shall maintain reserves more equal to those of the banks than is now the practise.

It may be added that the organization of many trust companies doing a general banking business—eighteen new ones have been formed in this State in four years—has in a measure changed the conditions of the money market to such an extent that it has been argued that the Bank Statement is no longer, as formerly, a faithful index of the monetary situation. But this is not strictly accurate. The Bank Statement, at least, reveals the state of the cash reserves. The trust companies may swell the total of loans to an unknown extent, but the banks are the reserve institutions, and the Street knows from the statement just what amount of reserve there is at the bottom of the great inverted pyramid of credit.

Every analyzer of a bank statement studies the item of loans. This shows whether the banks are expanding or contracting. Contraction is, of course, dreaded by the Street, because it involves the calling of loans and an advance in the rates of money, making it more difficult to carry stocks. On the other hand, too great expansion of loans may seem dangerous, as overexpansion has been the chief cause of most financial crises. Expansion of loans always increases the deposits, and increased deposits call for larger reserves.

It is hard to make the uninitiated understand the significance of the word deposits. The deposits may amount to $1,000,000,000, and yet the actual money held by the banks may be only a quarter of that sum. Deposits, therefore, do not necessarily mean actual money, but money and credit combined. For instance, $10,000 in cash may be

deposited by A in the bank. The bank loans $5,000 to B, who thereupon holds it there as a deposit to draw from. The total deposits are, therefore, $15,000, although the actual cash is only $10,000. Thus an expansion in loans always swells the item of deposits.

More significant than all the other items of a bank statement, as has already been shown, are those representing cash holdings. Credit may be the vital air of the whole financial system, but money is the oxygen in the air, without which there would be suffocation and death. So, in analyzing a bank statement, the reports of specie and legal tenders are of first importance. Specie means both gold and silver. Legal tenders mean any form of paper money that the Government makes legal tender in payment of debts. An increase in cash increases the credit-giving power of the banks. A decrease in cash involves a contraction of credit. Much is heard in the Street from time to time of manipulation of the Bank Statement, for the purpose of influencing the stock-market. Manipulation of the money market is indeed possible. A possible way of reducing the cash holdings of the banks is to export gold. Another method is to withdraw legal tenders, and deposit them in the safe of a trust company or in a safe-deposit vault. Daniel Drew is said to have carried, in 1866, several millions of dollars in cash, in a carriage, to Jersey City, in order to produce a stringency in the money market. There are various ways of hiding money, and of thus reducing the power of the banks to make loans. It would be difficult, however, to produce proof of manipulation of this character in recent years. Suspicion and rumor are not proof. Moreover, any bank guilty of complicity in any such conspiracy would be disgraced, and any National bank which would continue to receive the deposits of any customer after he has once withdrawn money for the purposes of manipulation, would be regarded as having condoned a dishonorable transaction. But hiding of money to influence the rates of

loans and prices of stocks does not involve manipulation of the bank statement itself. The individual banks may have different ways of making up their averages, but the statement itself is an honest exhibit of average conditions for the week under review. There may be manipulation outside the Clearing-House; there is none in it.

It is a fair estimate that 90 per cent of all the money in New York is held by the Clearing-House banks. As the cash holdings of the banks are what constitute their power of extending credit, the movement of money becomes a matter of vital importance. Are the banks gaining or losing cash? That is the question of questions. There are three principal movements of money:

1. The export or import of specie.

2. The shipment of currency to the interior or receipt of currency from the interior.

3. The payment of money into the United States Treasury and the disbursements of money by the Treasury.

The first of these movements will be explained in the chapter on Foreign Exchange, and the third in the chapter on The Subtreasury.

The currency movement from and to the interior is chiefly controlled by the deposits or withdrawals by the country banks. It has already been shown that these banks can keep half of their legal reserves in New York banks and draw interest thereon. The New York banks, therefore, are continually liable to calls from these banks whenever the local demand for money becomes acute. In addition to acting as depositories for the reserves of the country banks, the New York banks act practically as clearing-agents for a large part of the commerce of the United States. Thus interior manufacturers and agriculturists are continually sending their products to New York for sale. The money paid for these products is, of course, paid through the banks. On the other hand, the interior is continually buying articles of merchandise in New York, and

the money paid for these articles is paid through the banks, so that there is a constant inflow and outflow of money. The Wall Street man watches this movement keenly, as on it may depend the course of the stock-market. If New York is sending to the interior more than it is receiving, the banks are losing cash, and there will be a contraction of loans, unless the loss to the interior should be counterbalanced by imports of gold or heavy Treasury disbursements. On the other hand, if the balance is in favor of New York the banks should be gaining cash.

The Street is not content to wait for the Bank Statement for knowledge of the movement of money. The exports and imports of gold are generally known as soon as arrangements are made for the shipments. Daily statements are given of the receipts and disbursements of the Treasury, and some idea of the interior movement is obtained during the week by inquiry at the leading banks, which have large dealings with interior institutions.

In domestic as in foreign exchange there comes a time when balances have to be settled in cash. These settlements may be delayed by various causes. For instance, if rates for loans are higher here than in the interior, the interior institutions, instead of calling for the money due them, may loan it, in the New York market. Western loans in New York have become a feature in the money market in the last few years.

An anxious period in the money market is the crop-moving time. That is the period of the year when the grain crops of the West and the cotton crops of the South are being harvested and forwarded to the markets. When it is recalled that in 1900 there were nearly three and one-half billion bushels of corn, oats, and wheat, and more than five billion pounds of cotton produced, some conception may be had of the service the banks of the country performed in financing the harvesting of these immense crops. Not all the burden of this falls on the New York banks,

but a heavy share of it does, and it takes a large sum of money out of Wall Street in the last half of the year. This movement requires shipments of currency, usually in bills of small denominations.* The banks can send this money by express or registered mail or by telegraphic transfers through the Subtreasury. The latter is the more convenient and the quickest way, but is restricted to Subtreasury points. By depositing in the Subtreasury the amounts required to be shipped, that institution will telegraph to another Subtreasury to pay a similar amount to the bank which is to receive the currency in that city. As an indication of the size and duration of the movement, the following statement of the telegraphic transfers of currency by the Subtreasury in 1900 and 1901 is of interest:

1900

	Chicago.	West.	New Orleans.	Total.
July and August	.....	.....	$350,000	$350,000
September.....	$600,000	$1,550,000	4,485,000	6,640,000
October.....	2,750,000	1,950,000	3,555,000	8,250,000
November.....	1,000,000	100,000	2,600,000	3,700,000
December.....	400,000	.....	4,700,000	5,100,000
	$4,750,000	$3,600,000	$15,690,000	$24,040,000

1901

	Chicago.	West.	New Orleans.	Total.
July.....	$900,000	.....	$425,000	$1,325,000
August.....	3,150,000	.....	300,000	3,450,000
September.....	2,050,000	$500,000	1,985,000	4,535,000
October.....	.....	370,000	3,645,000	4,015,000
November.....	200,000	.....	1,730,000	1,930,000
December.....	1,300,000	.....	4,570,000	5,870,000
	$7,600,000	$870,000	$12,655,000	$21,125,000

* The small farmer keeps no bank account and must be paid in currency and not by check. He must pay his hands in cash.

The crop-moving period often subjects Wall Street to a severe strain. The stock-market has more than once suffered from this cause, and the Treasury has been called upon to afford relief by buying bonds, in order to liberate money held in the Treasury and which can be got into circulation in no other way.

A great money market like that of New York possesses many sources of supply of credit. High interest rates open the conduits through which streams flow from one or more reservoirs of credit. From the Klondyke come new supplies of the yellow metal. Australian gold, imported into San Francisco, is instantly made available in New York by telegraphic transfers through the Treasury. Great banks in Chicago and other Western cities make direct loans in Wall Street on stock collateral or commercial paper. Europe, by a transfer of credit, loans its capital in New York, or, if the interest rates advance high enough, foreign exchange rates may decline to the importing point, and an actual stream of gold flows into the Street.

In the past five years there has been a notable expansion in the size of the money market. Wall Street has required larger banking machinery. The formation of great syndicates and immense corporations have called for banks of larger capital and resources. Syndicates that are conducting operations involving tens and perhaps hundreds of millions of dollars require accommodations that would have seemed incredible a few years ago. So two banks have increased their capital to $10,000,000, and another has recently increased to $25,000,000 capital and $15,000,000 surplus, a total of $40,000,000. Others have augmented their facilities in other ways.* Large State banks have

* In July, 1892, there were 64 banks members of the Clearing-House having a capital of $60,872,700. In July, 1902, there were 59 banks in the Clearing-House having a capital of $98,872,700, an increase of $38,500,000 in ten years, although there were five less banks. In July, 1898, the net deposits of all the banks amounted to $534,608,400, of

established numerous branches. Chains of banks have been formed—that is, a number of banks controlled by one set of capitalists. There has been a notable concentration of banking capital. Several of the principal banks are closely allied with the most powerful private bankers and the greatest individual capitalists and corporations. Thus it is possible to mass the bulk of the banking power of Wall Street upon any enterprise in which these capitalists are interested. Whether this concentration of the money power is a thing to be feared or welcomed, is a question that is not germane to the purpose of this book. Every one will answer it in accordance with his own point of view. It is practically the same question that is involved in the organizations of the trusts and the consolidation of the railroads.

Wall Street not only watches its own Bank Statement, but so intimately connected have become all the markets of the world that it also studies the statements of the big Government banks of Europe. The Bank of England statement is issued on Thursday, and the trained eye of the financier can read in it the conditions of the English money market, which is the most powerful in the world. The Bank of England discount rate sounds the key-note of the international monetary situation.

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which $86,980,800, or about 16 per cent, was in the four banks having the largest capital. In July, 1902, the total deposits were $958,647,500, of which $285,127,200, or nearly 30 per cent, was in the four largest banks. It is clear, therefore, that the tendency is toward the concentration of banking power. According to a report of the Comptroller of the Currency there were on July 16, 1902, sixty national banks in the United States with deposits exceeding $10,000,000 each. Twenty-two of these were in New York.

CHAPTER XVII

SUBTREASURY AND ASSAY OFFICE

It has become almost an unwritten law of politics that no Secretary of the Treasury can be selected from Wall Street. The reason for this is obvious. Many people fear the power of the Street, and do not want it to have too strenuous an influence in the Treasury Department. Yet every Secretary of the Treasury, from whatever section of the country he comes, is inevitably brought into intimate relations with Wall Street. It is not meant by this that the Secretary engages in stock speculation or uses his official power to advance or depress prices. No such scandal as that has developed.* But there is the closest possible bond between the Treasury and the money market. When the Government needs money for the purposes of war, it must come to the money market for it. When it desires gold in order to maintain specie payments, it has to come to the Street for it. When it desires to refund its bonds at a lower rate of interest, the operation generally has to go through Wall Street. If, on the other hand, the business interests require relief which the Treasury is able to afford, it is mainly through Wall Street that the Treasury is able to let out a part of its surplus by means of payments for

* "The Secretary of the Treasury, by his control of the public debt, has no doubt means of affecting the markets: but I have never heard of any charge of improper conduct in such matters on the part of any one connected with the Treasury Department."—*Prof. James Bryce in The American Commonwealth.*

bond redemptions. In a score of ways the Treasury and the Street are brought into close contact.

The Secretary of the Treasury is the head of the three greatest institutions of Wall Street, the Subtreasury, the Assay Office, and the Custom-House. His direct representative in the Street is the Assistant Treasurer, who is a member of the Clearing-House, through which the Subtreasury makes its daily exchanges the same as a bank. In times of financial distress, it is customary for the Secretary to meet the leading bankers at the Subtreasury to consider measures of relief. The Assistant Treasurer is an official of higher standing than his title would indicate. He draws the salary of a cabinet officer, a salary larger even than that of the Treasurer at Washington.

Through the Subtreasury flow more than one-half of the aggregate receipts and expenditures of the United States Government. Into it flow the receipts of the Custom-House, of the Post-Office, and of other large Government offices. Out of it flow the payment of interest on bonds, payments for pensions, and the manifold disbursements of the Government for army, navy, and other purposes. The Subtreasury is also the main agency of the Government in the floating of new loans, in the redemption of bonds, and the larger financial policies of the Treasury Department. The high standing of the office of Assistant Treasurer is indicated by the character of the men who have held it since its establishment in 1846: William C. Bouch, John Young, Luther Bradish, John A. Dix, John J. Cisco, John A. Stewart, H. H. Van Dyck, Daniel Butterfield, Charles J. Folger, Thomas Hillhouse, Thomas C. Acton, C. J. Canda, Alexander McCue, E. H. Roberts, and Conrad N. Jordan.

The establishment of the Subtreasury followed the fall of the United States Bank, and for fifty-six years it has been the basis of the Government's financial system. Besides the main Treasury in Washington, the Government

maintains Subtreasuries in New York, Philadelphia, Chicago, Baltimore, Boston, Cincinnati, New Orleans, St. Louis, and San Francisco, and keeps a certain proportion of its money in each of these places. As already indicated, the New York Subtreasury is the most important. But the prevailing agitation in financial circles is for the abolition of the Subtreasury system, and even some of those most closely connected with it are most opposed to it. It has been said that the Treasury ought not to be a hoarder of money. An ideal Government policy would be one in which the yearly receipts and expenditures of the Government nearly balanced each other, leaving a very small surplus, and in which all the money received and disbursed was kept all the time in circulation. Every dollar absorbed by the Treasury is a contraction of credit. This is the defect of the Subtreasury system, that it keeps large amounts of money locked up in the Government vaults that might and should be in use for the purposes of business.

The problem that confronts every Secretary is, at one time, How shall a deficit in the Government revenues be met? and at another, How shall a surplus in the Treasury be made as little a burden upon commerce as possible? At one time he is struggling to get money into the Treasury, and another to get it out. The getting it in is a problem of taxation or sale of bonds. The getting it out is a problem of appropriations, of deposits in the banks, or of purchase of bonds. There is a limit, however, to the ability of the Treasury to keep the Government money in the channels of trade. Deposits of Government money in the banks must be secured by deposits of Government bonds by the depository banks in the Treasury. There is, of course, a limit to the ability or willingness of the banks to buy bonds for this purpose. Early in February, 1902, there were four hundred and forty-five depository banks, in which the Government held $113,000,000 of deposits. When the Treasury has a surplus, its only effective ways of reducing

it are either to enter into lavish public works or else to redeem or purchase its own bonds.

But the purchase of bonds inevitably keeps their market price at a high point, and discourages their use by the banks as a basis for bank-note circulation. As a matter of fact the policy of bond purchases has had that effect this year, and thus, while on the one hand the redemptions have increased the amount of money in circulation outside the Treasury, the retirement of bank-notes, even up to the legal limit of $3,000,000 a month, reduces the money in circulation. The banks find it more profitable to sell their bonds than to keep them as a basis for circulation.

Hence the agitation for abolition of the Subtreasury system. "This country," said Joseph C. Hendrix, President of the Bank of Commerce, at the Clearing-House memorial meeting in honor of the late F. D. Tappan, "is without a bank of ultimate reserve. There is no reservoir of cash to which institutions dispensing credit may go when in need. It is the one glaring defect in our banking system. The Subtreasuries of the Government stand like relics of a primitive civilization, helpless to answer the sharpest necessities of national commerce."

It was to remedy this glaring defect that Lyman J. Gage, when Secretary of the Treasury, advocated the creation of a big central bank, or bank of banks, in which the Government would keep its deposits—a revival in a different form and under different regulations of the old United States Bank policy. Mr. Gage's proposition was that the stock of this central bank should be owned by the four thousand or more National banks throughout the country; that its capital should be $50,000,000; that it should receive the accounts, not of individuals and corporations, but of the Government and the stockholding banks; that it should make loans to them; and that it should thus supersede the Subtreasury system, and keep the funds of the Government in the channels of trade.

This subject of a substitute for the Subtreasury system is closely allied with the subject of currency reform. In fact, both go together. There is a general agreement among bankers and others who have given the problem study that something should be done. There is, however, a wide difference of opinion as to what should be done. Mr. Gage's proposition has by no means met with universal favor. This is the most pressing financial problem now confronting the country, and it is one in which Wall Street is vitally concerned. Further reference to it will be found in the chapter on Panics.

It has already been shown how frequently, in times of money stringency, the Secretary of the Treasury has come to the relief of the market with offers to purchase bonds. This relief, though slow and inadequate, has often been quite effective. Believing that it would be of interest to secure from the Treasury an official statement of the different times this relief has been extended, the author wrote to the Treasury Department, and in reply received the following:

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
WASHINGTON, *January 15, 1902.*

Mr. SERENO S. PRATT,
Herald Building, New York, N. Y.

SIR: In reply to your letter of the 13th instant, you are informed that it would be impracticable for the Department to furnish you with a statement showing the purchases of United States bonds for the purpose of relieving stringent money markets, made by the Secretaries of the Treasury from the time of Hamilton to the present. It has been the practise of the Department to redeem, or purchase, United States bonds, as the case might be, from time to time, whenever the surplus revenues would authorize such proceeding, and without specific regard to the condition of the money market; though it should be said that, as a stringent money market usually affects adversely the values of all securities,

the Government has generally been successful, at such times, in obtaining large amounts of bonds at comparatively low prices.

It would be practicable to furnish you a statement of the purchases and redemptions of United States bonds, by fiscal years, since the Civil War, but a statement like this, it is assumed, would not answer your purpose.

Respectfully yours,

H. A. Taylor,

Assistant Secretary.

This is important as an official statement of Government policy. In purchasing its own bonds the Government attains two ends: first, it reduces the principal and interest of its debt; second, it restores to the channels of business the surplus money of the Treasury. The Government prefers to be understood as acting for the first purpose alone. As a matter of fact, it has a dual motive and performs a dual service to the country whenever it purchases bonds. But, as has been said, there is a limit to the relief the Treasury can thus afford. The process of purchasing bonds, if continued steadily, results in advancing their prices, and in thus tempting the banks to retire their note circulation in order to recover the bonds securing the same, and then to sell the bonds at the highest price. Secretary Shaw, early in 1902, was obliged to discontinue the process of bond purchases, believing that the situation no longer required this form of relief.*

* In the severe money stringency of September, 1902, he was, however, forced to return to the policy of buying bonds. He first tried to induce the national banks to increase their note circulation. Then he offered to anticipate the interest on all the bonds up to June, 1903. These measures being insufficient to relieve the situation, and Wall Street being threatened with a monetary panic, the Secretary permitted the national bank depositories of Government money to use it without the necessity of maintaining the 25-per-cent reserve required for commercial deposits. He also decided to permit such depository banks as

Among the many minor services of the Subtreasury for the money market is to act as the agent for the transfer of money from one part of the country to another. Thus, by its system of telegraphic transfers, gold arriving at San Francisco from Australia and the Klondyke can be made immediately available in New York; and likewise, when currency is needed in the interior "to move the crops," New York banks can transfer the currency to Subtreasury points by telegraphic transfers. To other than Subtreasury points the transfers have to be made by express or mail. The Subtreasury charges are the same as the express charges to the same points; for instance, 75 cents per $1,000 to New Orleans, and 50 cents to Chicago, St. Louis, and Cincinnati.

The Assay Office is a branch of the United States Mint, and, as its name indicates, it receives and assays deposits of gold and silver and returns the same to the depositors in the shape of bars, or the Government will give coin for the value of the gold. An interesting book could be written about the Assay Office, its methods of melting and refining, and its marvelous scales, which are so delicately adjusted that they can weigh one-half of one hair of a person's head. It is from this office that the exporters of gold obtain most of the yellow metal for shipment; and it is in this connection that the Assay Office becomes an important part of the mechanism of Wall Street. In this office we are confronted with the evidence of the dual character of gold as money or a medium of exchange, and as merchandise, an article

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would take out increased circulation, to use their government bonds for that purpose, substituting for them as part security for the deposits, State and Municipal bonds, under restrictions that would safeguard the Treasury against loss. All of which shows to what measures a Secretary of the Treasury must resort in order to counteract the credit contracting effect of Treasury absorptions. It affords a fresh illustration of the dependence of the business interests of the country upon the Secretary of the Treasury, and of the latter's enormous power in the markets. Fortunate it is that this power has been honestly, and generally wisely used.

itself bought and sold the same as pig-iron. The Assay Office makes two kinds of gold bars for sale: small bars varying in value from $100 to $700, which are bought for use in the arts and sciences; and large bars varying in value from $5,000 to $8,000, which are used for the export of the precious metal. These bars are stamped with weight and fineness as ascertained by the assay. Exporters pay 4 cents per $100 for them, but even at this cost the bars are cheaper than coin would be.

The coin can be obtained without premium at the Subtreasury on presentation of legal tenders, but coin is inferior to bars for export, because more easily abrased. The stamp of the United States on a coin is effective only within our own boundaries. As soon as the coin reaches a foreign country, its value is determined not by the stamp upon it but by its weight. So, when we are compelled to pay our debts by a gold shipment, the gold, whether it be bars or coin, is weighed and its value ascertained. Coin loses value by handling. Even new coin carried in bags loses value by abrasion during the trip across the Atlantic. It is stated at the Assay Office that if a bag of gold coin is put on the scales and weighed, then lifted on to the floor, and then immediately put on the scales again, the mere movement which this simple operation has involved will cause an abrasion such as will show a difference in weight. Bars, on the other hand, can be easily handled without much, if any, friction. When they arrive on the other side there is little loss in weight. In a big gold shipment this means much.

Some objection has been made to the policy of the Government facilitating gold shipments by the sale of these bars. But in answer to this it is argued that when we owe money to Europe and our creditors demand payment, we must pay, whatever the cost of shipment. If our own Government increases the cost of obtaining the gold for payment, that makes no difference to our creditors, but it does to us as the debtors, because it makes our burden and

expense greater. In facilitating shipments, therefore, we are not doing a favor to Europe, but to ourselves. The Treasury, indeed, suspended the sale of bars for several years, during that perilous period when the Government was struggling to maintain its gold reserves. But the situation has been changed by the enactment of the Gold Standard Law of 1900, and the breaking of the endless chain of greenback redemptions.

The Assay Office occupies one of the oldest buildings in Wall Street. It was erected in 1823, and was for many years occupied by the New York branch of the United States Bank. After that it was leased to private bankers, but in 1853 was purchased by the Government and was first occupied by the Subtreasury. What is now the Subtreasury building, with its Greek façade and its eight Doric columns, was built by the Government on the site of the old Federal Hall for the Custom-House, which occupied it until 1872, when that branch of the Government was removed to the Merchants' Exchange Building, and the Subtreasury took its place. It is one of the most imposing structures in New York, and no other is so rich in historical associations. On the stone steps of the Subtreasury there stands a statue of Washington, in commemoration of his first inauguration. The very stone on which the Father of his Country stood on that occasion is preserved inside the building. The statue was unveiled in 1883 by Governor Grover Cleveland, and President Arthur and George William Curtis made addresses. Six years later the Centennial of the Inauguration was celebrated there, with addresses by President Harrison and Chauncey M. Depew, and an ode by Whittier. Many memorable public meetings have been held in front of the Subtreasury, and it was there, in 1865, during the excitement that followed the news of Lincoln's assassination, that James A. Garfield gave utterance to the ringing sentence, "God reigns and the Government at Washington still lives."

CHAPTER XVIII

FOREIGN EXCHANGE AND THE BALANCE OF TRADE

Simple as are the basic principles of foreign exchange, it becomes so intricate in all of its ramifications over an area as wide as the world itself, and involving transactions as great as the volume of the world's commerce, that comparatively few have a complete grasp of its details. Many experienced bankers even are unable to calculate the profit of a gold shipment. International banking-houses have difficulty in training their clerks in this branch of their business. The young men can be taught to do one or two routine things, but as for any large comprehension of the subject, that seems out of the question. The writer is informed that the leading experts in foreign exchange are men trained in the German universities—a fact which Andrew Carnegie might well have considered before asserting that he had known few young men intended for business who were not injured by a collegiate education.

In primitive times all trade was a matter of barter. An ox was exchanged for a horse, a camel for a slave, etc. Then money was invented as a medium of exchange. The bill of exchange was another step in advance. It became burdensome, expensive, and perilous to transfer a sum of money over a considerable distance in settlement of every transaction. It was discovered to be easier and cheaper to make such settlements by transfers of credits. Thus was evolved what is known as the system of domestic and foreign exchange, domestic applying to exchanges

within one's own country, and foreign to exchanges with other countries. Foreign exchange is more complicated, because each country has a different coinage, and a transaction in foreign exchange therefore involves both a calculation of the difference between coins and of the relative position of the two countries as regards credit.

Many popular misconceptions exist as to foreign exchange. A common misconception is that it means simply an exchange of the coin of one country for the coin of another. It does mean that, but it means much more. An exchange of coin is what has been called the nominal exchange. Gold is the basis of the monetary systems of both England and the United States, but the dollar is the basis of the latter's coinage, and the pound of England's coinage. If one owed a debt in England he would have to pay in English money, as American coin is not legal tender there. So it would be necessary for him to exchange his American dollars for English pounds. The value of the two coins in an international transaction depends not upon the Government's stamp upon them, but upon the amount of gold in them. This is determined by an assay. The equivalent in American money of £1 sterling is $4.8666. But in paying a debt in England the money may have to be transported there. This involves cost of freight, insurance against loss, and other items of expense.

The actual rate of exchange depends not only upon the difference in the value of the coin, but upon the state of international credits. For the real exchange is the payment of a debt by a transfer to one's creditor of a debt due from another person. For instance, if A in New York owes B in London £5,000, and C, also in London, owes A a like amount, A liquidates his indebtedness by transferring to B his credit with C, who pays the money to B, thus avoiding two shipments across the Atlantic from C to A and from A to B. Imagine, if one can, a state of things in which every international debt had to be paid by an actual trans-

fer of coin. Half the ships would be carrying merchandise and the other half gold in payment therefor. The expense and the loss would be prodigious. Commerce, of course, would be impossible, in the modern sense. But by bills of exchange this is obviated.

Bills of exchange are written orders drawn by one person on another who owes him money, generally for merchandise purchased from him, directing him to pay a specified sum at a specified time to a specified person. The form of a bill of exchange is similar to that of a draft, the difference between the two papers being that the draft is an order generally, not on a debtor, but upon a bank or some other custodian of funds belonging to the person drawing the draft. Bills of exchange are negotiable, being transferable by indorsement the same as drafts and checks, and increasing in strength by every additional indorsement. They become, therefore, articles of merchandise like the products whose sale produced them. Bills of exchange are thus bought and sold like wheat or cotton or stock.

Europe is constantly buying American products and American stocks, and as the United States is always purchasing European cloths, wines, and other goods, there is never a time when one country has not debts to be paid in the other. There is therefore a constant output of bills of exchange and a steady demand for them. Hence has sprung up a class of bankers who find it profitable to deal in these bills, buying from some and selling to others. The Chicago merchant who sells a cargo of grain in England draws a bill of exchange on the purchaser in London and discounts or sells it at a bank. The merchant in Worth Street having purchased a line of English cloth in London, may buy a bill of exchange to pay the debt. Some bills are drawn to be paid at sight on demand, and others at sixty or ninety days. When made payable at some future date, the bill must be presented at the earliest possible time to the person on whom it is drawn, who writes "Accepted" across

its face. Naturally the value of a bill depends upon the names on it, and every indorser becomes responsible for its payment. Bankers also draw their own bills on their foreign credits and sell these in the market.

The foreign exchange market is thus a vast international clearing-house. The transactions of commerce are cleared by this system of transfers of credit just as the transactions of inland trade are cleared by the bank clearing-houses. If our indebtedness abroad is heavy, there is a big demand for bills and the rate of exchange advances. If the rate advances to a certain point, however, it may be found cheaper to ship gold than to buy the bills. If, on the other hand, the balance of trade is in our favor, and the volume of our European credits is greater than our debts, the supply of bills is larger than the demand. The rate therefore falls, and if it falls far enough gold is imported.

"It might seem," says Jevons, in his work on the Mechanism of Exchange, "that in the use of checks internally and of bills of exchange externally, we have reached the climax of economy in metallic money, but there is yet one further step to take. Let us imagine that merchants all over the world agree to keep their principal accounts with the bankers of any one great commercial town. All their mutual transactions could then be settled among those bankers. An approximation to such a state of things exists in the tendency to make London the monetary headquarters of the commercial world and the general clearing-house of international transactions."

As London clears for the world, so New York clears for the United States. The bankers of Wall Street handle the machinery of exchange so as to provide with the utmost economy of time and expense for the payment of our indebtedness abroad, for the collection of our foreign credits, and for the payment of the expenses of American tourists by means of letters of credit, and all the other functions of international finance.

But, as in the exchanges of a clearing-house, there is always a balance to be paid. For, of course, in commercial intercourse of nation with nation, it can not be supposed that their transactions exactly clear each other. Foreign exchange provides a convenient method by which we pay for foreign merchandise with cotton and wheat and other American products. But these exchanges are not equal, and there comes a time when balances have to be paid. These balances are settled in gold. If it is a credit balance there is gold to receive. If it is a debit balance there is gold to pay. In clearing-houses the balances are paid at stated times, usually every day. But in foreign exchange the periods of payment are irregular and may be long deferred.

When the balance has to be paid there is a gold shipment, for gold, not valued as coin but as bullion, is the only thing that will be accepted in payment of an international balance. But the time of payment is regulated by various influences which often appear very occult. Gold shipments are controlled by the rates of exchange, but these rates are controlled by the supply of and demand for bills. This supply and demand depend on the state of trade between the United States and Europe, and various other factors in international finance, such as foreign investment and foreign travel.

But gold shipments are also regulated by another powerful influence, namely, the rates for loans. Money always moves to the point where there is the most profitable use for it, where the rates for loans—the matter of security being equal—are highest. This is true as between different parts of this nation, and it is also true as between different countries. In one sense, there are no boundary lines in finance as there are none in art. London, Paris, Vienna, Berlin, New York—the movement of money between these great cities is controlled by laws quite distinct from the political and racial barriers that separate them. There is no tariff on credits.

If the rate of discount is higher in London than elsewhere, money is attracted there as iron to a magnet. New York may owe a vast sum of money to London, but an advance in interest rates in Wall Street will postpone the payment, for London may find it more profitable to lend the money here than to call it home where there is less eager demand for it. A few months ago it was said that Berlin was lending money in New York, the difference in the profit of employing the money here over that of use in Berlin being at that time 2 per cent. Therefore the mechanism of foreign exchanges includes within it this system of foreign loans.

Thus, an advance in rates of money generally weakens the rates of exchange, and a decline in money strengthens the exchange market. In May, 1902, to take an illustration, the foreign exchange situation foreshadowed gold shipments as the rates approached closely to the usual export point. But by reason of the interior demand for currency, and an expansion of loans through speculation and syndicate operations, money became scarce, and the rates advanced to 10 and 20 per cent. Immediately there was an avalanche of sterling loans. Europe found it more profitable to loan out her credits in Wall Street than to call for payment. Immediately rates of exchange fell and the stringency in money was reduced. These foreign loans postpone the day of settlement of balances, but as borrowed money must be paid back some time, there comes a day when the debit balances must be settled. The creditor finally demands his money.

Here we touch upon another subject concerning which there is much popular misconception. There is a great deal heard about the "balance of trade" as being in favor of one country or another, and as if that controlled the movement of gold. If the United States exports more than she imports, there is a balance in her favor, and if other things were equal, there would be an importation of gold.

But the exports and imports of merchandise constitute only one item in the international balance-sheet.

The balance of trade is a term over which economists have been quarreling for two hundred years, and they are still at it, for involved in it is the issue of protection and free trade. J. B. Say says that a misconception on this subject was responsible for fifty years of commercial wars, which were carried on because nations thought that the sole object of commerce was to acquire the precious metal. The profits of commerce were valued only as they brought in gold and silver. If one nation bought more than it sold of merchandise, it had to pay specie for the balance, and was therefore said to have lost wealth, just as the other nation, which had sold more than it bought, had gained wealth. The idea that neither side lost in an exchange of commerce, but that both sides gained, was overlooked, and everything was sacrificed in an endeavor to check merchandise imports and force exports.

While the theory of the balance of trade no longer controls the policies of the nations to the extent it once did, it still has a powerful sway, and to-day an exportation of gold is regarded by multitudes as a national calamity, as being a loss of national wealth. If a man pays $20,000 for a house he is no poorer than he was before. He has merely exchanged one article of value for another article of value. And so a shipment of gold is only one of a multitude of exchanges of products that are going on between the people of the different nations. Europe loses no wealth by paying gold for American wheat, for though gold perishes not, and wheat is consumed, the wheat as food is transformed by the alchemy of the stomach into that bodily and mental strength which enables Europe not only to live, but to achieve wealth in other forms.

In Wall Street, however, a gold shipment is dreaded, because it decreases the loaning power of the banks, and therefore what is called the balance of trade is constantly kept track of as far as it is possible to do so.

But even Wall Street is prone to exaggerate or misconceive the significance of the balance of trade. In the fiscal year ending June 30, 1900, the total foreign commerce of the United States amounted to $2,244,424,266, and if there had been no mechanism of exchange, this business would have called for the actual transfer between the United States and other countries of that amount of gold, which would, of course, have been a physical impossibility. But by the use of bills of exchange, the great bulk of the transactions were cleared one against the other, so that the amount of gold actually required to be exported and imported in payment of balances was only $92,839,943, and this in settlement of financial as well as trade balances. In that year the excess of merchandise exports over imports amounted to $544,541,898. If the movement of merchandise was all that controlled the movement of gold, there would have been an importation of just that amount of gold into the United States which would have produced a panic in Europe. But, as a matter of fact, we exported $3,693,575 more gold than we imported; in other words, instead of the rest of the world being indebted to the United States, as the trade balance indicated, we were actually in debt, and thus exported an excess of gold. In the next fiscal year of 1901 we imported an excess of $12,866,010 gold, but our trade balance favored us to the amount of $664,592,826. In the past eight years there has been a balance of trade in our favor aggregating more than $3,000,000,000, and yet the excess of gold imports in the same time was considerably less than $100,000,000. It is therefore clear that the movement of merchandise between this and other countries constitutes only one of several factors controlling the movement of gold.

It is comparatively easy for an individual to ascertain whether his credits exceed his debits or not, but it is often difficult to ascertain the true position of a nation. Secretary Hay has been quoted, in another chapter, as declaring that

in the past five years the United States has become a creditor nation; but certain experts, who have made an investigation, hold to the contrary, and say that, while the United States has reduced her indebtedness to Europe, she is still heavily in debt.* It may seem strange that there should be obscurity on so vital a question as this, but the fact is that while we have official Government statistics of merchandise and specie exports and imports, there is no certain way of ascertaining the volume of other international transactions. Many estimates are given, but they are merely approximations. Even the Government statistics of value of merchandise imports report less than the actual value, because a large though uncertain amount of imported goods is undervalued, in order to escape payment of *ad valorem* duties. Still, it is important for a man of large affairs to keep track as best he may of these blind items in the nation's account current with the rest of the world.

Every year the United States, to mention the leading items, has to pay other countries:

1. For her importations of their products.
2. The freight charges on merchandise carried in foreign vessels for American account.

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* In a recent address to the Manufacturers Association of New York, O. P. Austin, Chief of the United States Treasury Bureau of Statistics, said: "The fear that has been expressed that the maintenance of a large excess of exports over imports would disastrously affect national financial balances throughout the world has not up to the present time been realized, and under present conditions does not seem likely to be realized. The large favorable balance of trade is being redistributed to the world, partly by American tourists, partly in payment of freights on international commerce, partly in payment of the earnings of foreign capital invested in the United States and interest on American securities held abroad, and partly in the liquidation of those securities; but until that foreign indebtedness, which is still estimated at perhaps $2,000,000,000, is cancelled and the United States becomes a creditor instead of a debtor nation, there seems no reason to suppose that a continuation of a large excess of exports over imports will prove a condition to be deprecated."

3. The interest and dividends on American securities owned by foreigners or by Americans making their homes abroad.

4. For securities sold by foreigners in our markets.

5. The traveling expenses of American tourists in foreign countries.

Every year the United States is due to receive from other countries:

1. The sums paid for our agricultural and manufactured products sold abroad.

2. The money brought by immigrants.

3. The outlays of foreign vessels in our ports.

4. The traveling expenses of foreign tourists in our country.

5. The freight paid for merchandise in American vessels in the foreign trade.

6. The sums paid for purchase of American securities and other American investments.

While Europe is vastly our debtor in the exchange of products, we are vastly her debtor on all the other items of the international balances. For instance, nearly all of our commerce is carried by foreign vessels. In 1901, only 12 per cent of all the imports and 6 per cent of the exports were carried in vessels flying the United States flag. Therefore we have to pay other countries for carrying our commerce. Then, the United States is a nation of tourists. In the fiscal year of 1900, 675,025 passengers arrived in the United States from other countries, but 157,050 of these were United States citizens returning from travel abroad; only 30,057 were foreign tourists and business agents intending to travel in the United States; the rest, 487,918, were immigrants. The amounts paid by Americans abroad are largely in excess of the sums paid here by foreign tourists and brought here by immigrants. Several years ago William Dodsworth made a painstaking effort to arrive at a just estimate of the various un-

known quantities in the problem of the balance of trade. He computed the debtor items as follows: Investment account, $90,000,000; traveling credits, $47,000,000; inward freight charges for American vessels, $24,777,000; outward passenger fares per foreign steamships, $8,698,000; undervaluations of imports, $5,000,000; total, $175,475,000. The creditor items were: Money brought by immigrants, $14,000,000; outlays of foreign ships in ports, $8,250,000; port outlays of passenger steamships, $6,600,000; outward earnings of American vessels, $1,900,000; total, $29,750,000. The debtor balance was $145,725,000, outside of the movement of merchandise and of securities. During the seven years from 1887 to 1893 the excess of merchandise and specie exports was $524,000,000; and the debtor balance on the other items was $1,015,000,000, leaving a debtor balance of $491,000,000, which was presumably settled by transmission of securities. Since this estimate was made, no other, so far as the writer knows, has been attempted with anything like the same thoroughness. Allowing for, say, about 10 per cent increase in the various items forming the basis of this computation, it might be possible to make this estimate the foundation of a fair calculation for the current year.

But enough has been written to indicate the laws that control the movement of gold in settlements of international balances. The gold, however, is not always shipped directly to the country to which we owe it. For instance, we may be indebted to Germany, but ship to France, because Germany owes a balance to that country, and a shipment to France thus satisfies two debts at once. Or we may owe England, but ship to France, because England is willing to lend the money there. Thus we hear of a "triangular transaction" in exchange, which is a movement involving three countries.

The shipper of gold has a comparatively simple problem to solve. He treats gold as an article of merchandise. He

ascertains what it costs him in New York; what will be the expense of packing, of carting to the steamship wharf, of transporting to Europe, of insuring against loss; what will be the loss of interest in transit, etc.; and then he ascertains what he can sell the gold for in London or Paris, as the case may be. If there is a profit, the gold is shipped. A profit of $200 on a shipment of $1,000,000 has been said to influence a shipment. Sometimes, when there is not a legitimate profit in gold exports, they may be forced by an offer of some premium or extra inducement, for, as has been indicated, gold moves to the point where it is most wanted. Of course, the same rules that regulate gold exports apply to gold imports.

One of the largest of recent shippers of gold has furnished the author with a statement of the method of calculating the profit or otherwise of a shipment to Paris.

If foreign exchange, he says, rises to a certain point, it becomes more profitable to remit gold (which has a fixed price in most of the principal countries) to meet obligations than to remit exchange. On the other hand, if exchange declines to a certain point, it may become preferable to import gold than to draw exchange against credit balances abroad. Taking for example a gold shipment to Paris, it has to be taken into calculation that the Bank of France pays 3,437 francs for 1 kilo fine gold, and that the United States Assay Office sells bar gold at the price of $20.67183 per ounce fine plus 40 cents per $1,000 premium. As 1 ounce is equal to 31.1035 grammes, $1 bar gold would bring in Paris 5.16936 francs. Deducting about $2 per $1,000 expenses, the net receipt in Paris for $1 bar gold would be about 5.1590 francs. It therefore results that if exchange in New York is such that less than 5.1590 francs can be obtained for $1, it is cheaper to ship gold than to remit exchange.

This is of value as being the calculation of a practical man trained in foreign exchange, and not of a mere theo-

rist. Formerly most of the gold exported was in coin, which was transported in bags.* But considerable value was lost by abrasion, and an allowance had to be made for this in all calculations. For a number of years the United States would not sell the gold in bars, but now supplies bars at the Assay Office at a slight premium. The shipper packs them in the rear court of the Assay Office in casks, with sawdust to prevent abrasion.

Sterling loans are loans made on bills of exchange.

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* The following calculation of a gold shipment to London based on coin (American eagles) is taken from The Journal of Commerce and Commercial Bulletin of recent date:

"An American eagle weighs 258 grains or .5375 oz. troy. In $1,000,000 worth of eagles, therefore, of exactly full weight, there would be 53,750 ozs. The Bank of England will buy American eagles at a fixed rate of 76s. 4½d. per oz. (sometimes a little more). At that rate 53,750 ozs. of eagles (allowing nothing for abrasion) would yield £205,201. The charges on a shipment of gold to London vary with each shipper and these are trade secrets which are jealously guarded. In a rough way, however, it costs about $3,000, or £600, to ship $1,000,000 gold to London. The following formula shows roughly the result of a shipment of $1,000,000 of eagles of exactly full weight:

"$1,000,000—53,750 ozs.—which yield		£205,201
Charges—		
Freight, $\frac{5}{32}$ of 1 per cent	£317	
Insurance, $\frac{1}{2}$ of 1 per cent	93	
Interest, 10 days, at say 3 per cent	171	
Cartage, cooperage, say $100, or	20	
Total	£601—	601
Net yield of shipment		£204,600

"A shipment of $1,000,000 eagles on the above basis, then, will realize £204,600 net. This means that every pound sterling costs (1,000,000 divided by 204,600) $4.8875. If this were all the story, then, so long as demand sterling could be bought at less than $4.8875, there would be no inducement to ship gold.

"But owing to the so-called 'triangular' operation, or to special concessions offered by the receiver of the gold, it is often practicable to ship gold to Europe when demand sterling is selling below $4.8875, or even below $4.88."

The object of making sterling loans is to obtain money on time at a cheaper rate than the one ruling in the domestic markets. The *modus operandi* is as follows:

The banker draws sixty- or ninety-days sight bills on London, which he either hands over to the borrower, indorsed in blank, who then sells them in the market, or he himself sells them in the market on behalf of the borrower, to whom he delivers the proceeds. After the lapse of sixty or ninety days the borrower has to repay to the banker the loan at the current rate of sterling exchange. If the borrower wishes to calculate what rate of interest the money will cost him, he has to figure as follows. As an example we will take a sterling loan of £10,000 for ninety days:

If the rate of exchange obtained for the bills was 484 (for £1) net, i. e., free of brokerage and revenue stamp, the borrower would receive...	$48,400
Of this he has to pay the banker say ½ per cent commission	242
Making the net proceeds.....	$48,158

If the rate of exchange at which the borrower has to repay the banker were 486¼, he would have to pay $48,650 for the original loan of $48,158, so that the result is that he pays for interest $492, which is equal to 4 per cent per annum.

CHAPTER XIX

PRIVATE BANKERS AND UNDERWRITING SYNDICATES

It has been said that no European nation could go to war without first consulting the Rothschilds, so dependent are all governments on the money power in times of national crises, when the ordinary revenues are insufficient and extraordinary loans are required. The bankers then are called upon to supply the "sinews of war."

When we speak in Wall Street of the "private bankers," we refer to the handful of great banking-houses whose operations are on an international scale, and which in the United States represent the same power that the Rothschilds have so long possessed in Europe. These houses may, like J. P. Morgan & Company, be closely allied by partnership ties to other powerful firms in London and Philadelphia; or else represent here the great banking firms and institutions of Europe, just as August Belmont & Company represent the Rothschilds.

The private bankers transact a general banking business much the same as the incorporated banks do, but free from many of their limitations. They make call and time loans, buy and sell mercantile paper, and engage extensively in all foreign exchange operations. They act as fiscal agents for corporations and associations. They are dealers in investment securities. They often conduct important operations in the stock-market. They underwrite new issues of stocks and bonds for railroad and other corporations. They undertake the reorganization of insolvent or embarrassed railroads. Of recent years they have been especially prominent in the promotion of immense industrial companies, or,

in popular nomenclature, trusts. They are at once bankers, brokers, dealers in foreign exchange, promoters, organizers, and underwriters. Their methods of business differ little, if any, from those already described. The main difference lies in the scope and magnitude of their transactions.

Their field of operations is as wide as the world. Their business is in London and Paris and Berlin almost as much as it is in New York. This is especially true in recent years, when the expanding commerce and financial power of the United States have placed this country in the company of the world's "great powers," a competitor of Great Britain and Germany, and a factor in the now pressing problem of the Orient. The private bankers are the powers "behind the throne" in the railroad and the big industrial corporations which now practically control the principal branches of trade. When it is said that one banking-house in Wall Street either controls or is directly influential in the management of railroads having a mileage of more than fifty-seven thousand, which is over one-fourth of the entire railroad mileage of the United States; that it practically controls one, and is represented in the Boards of Directors of the other two, of the three greatest banks; that it is identified with three trust companies and one of the four leading insurance companies; that it is the chief directing force in the coal and iron trade, and has close alliances with leading corporations in copper, express, telegraph, and electric light; and that the par value of the securities of the various companies with which it is closely identified is upward of $5,000,000,000, or nearly one-third of all the securities dealt in in the listed and unlisted departments of the Stock Exchange, some idea is formed of the magnitude of the operations and the extent of the power of the private bankers of Wall Street.

Mr. Morgan is the only man in the world thus far to deal in billions of dollars, his organization of the United States Steel Corporation being the crowning achievement

of Wall Street finance, as he himself may fairly be said to be the greatest personal product of the Street. Mr. Morgan's own account of the business of the private banker is therefore of supreme interest, it being the account of an expert. In his testimony of March, 1902, before the special examiner in the suit against the Northern Securities Company, the following dialogue * took place between him and the lawyer examining him:

Q. You are J. P. Morgan, senior member of the firm of J. P. Morgan & Company? *A.* Yes.

Q. Would you mind telling us the nature of the transactions of J. P. Morgan & Company? *A.* We deal in railroad securities and other securities and adjustments—anything in the financial line that is creditable and might suggest itself to the firm as profitable.

Q. Does the firm ever engage in any speculation on its own account? *A.* Not to any extent.

Q. They would not, for instance, purchase $78,000,000 of stock of a railroad for their own account? *A.* Probably not. We might if we thought it desirable.

Q. Their business is to deal in stocks and other securities for the benefit of their customers? *A.* Yes.

Q. And then by financing any good enterprises that might present themselves? *A.* If they wished to do that.

Q. And they would, for instance, loan money for that purpose? *A.* Yes.

Q. For their own account or the account of others? *A.* I don't feel that I ought to be called on to answer that question.

Q. The relations of your firm as bankers to the Northern Pacific have continued since 1896? *A.* Yes, we have been their fiscal agents.

Q. To save time, tell us what that means—what you did for them. *A.* Whatever they required in a financial way.

* Report of testimony in the New York Tribune.

Q. You mean to say that all their financial business was conducted through your house? *A.* No, we were their New York representatives, and we are to-day.

Q. So that if the Northern Pacific issued any new stock since that time it would be financed through your house? *A.* It would. At least, I should expect it.

Q. And if it was necessary to raise money for the building of extensions and improvements, or for the purchase of large lines, these transactions would probably be financed through your house? *A.* I would expect them to be.

Q. Of course, the detail financial matters of the road would be handled by others? *A.* Of course.

Q. But all these large matters would be handled by your house? *A.* I should so expect them to be.

Q. And the Northern Pacific has from time to time paid for this service? *A.* I think so.

Q. Every time an underwriter's syndicate is formed there is a commission paid to the banker and some profit to the underwriter? *A.* Not always. (Laughter.)

Q. That is the usual custom? *A.* We should expect it to be. Otherwise the transaction would not be made.

Q. You would expect to be paid for your services? *A.* Not always.

Q. When you negotiate for a railroad don't you make it pay you? *A.* Not always.

Q. You sometimes do it without any consideration? *A.* We do. It may not be desirable to make a charge. It depends on the nature of the transaction. In a great many cases no charge whatever is made.

Q. You do that work for nothing? *A.* We do it for nothing.

The international banking-houses touch business at every possible point of contact. It may almost be said that they are the arbitrators in every trade, and that they can say the word which makes for industrial war or peace. They settle

rate wars and labor strikes. They shape, subject to the same natural laws which govern all human beings, the destinies of the markets. When two of the great banking-houses clash, the result is like the eruption of Mont Pelée or a collision between two planets. Such a clash shook Wall Street from top to bottom in the memorable panic of May, 1901. Upon the consummate ability and integrity of these bankers depend in large measure the growth, the stability, the prosperity, and the happiness of the country. Before them we stand in the presence of what is called "high finance." On important occasions, when a public statement is expected from J. P. Morgan & Company, a throng of brokers and reporters gather around the doors of the firm, anxious to get the earliest possible information. A meeting of the Cabinet at Washington does not excite more interest than a "conference at Morgan's."

There is one special function of the private bankers which needs explanation. They underwrite new issues of securities either by established corporations or by newly organized companies. To underwrite is to insure. A company desires to raise, say, $50,000,000, and, to do this, issues bonds secured by a mortgage on its property. It possesses no facilities for selling these bonds to the public It must place the bonds, or float the loan, as the phrase is, through a banking-house, which either underwrites the issue itself or, if it is too large for its own resources, forms an underwriting syndicate. A syndicate is a combination of capitalists united for the purpose of prosecuting an enterprise requiring a large amount of money. The underwriters agree to take the entire issue of securities; that is to say, they insure it, being prepared to pay for every bond that is not sold to the public.

It is scarcely necessary to say that this is an operation often involving great risks. The underwriters must be men of large capital, extensive resources, wide and influential connections, and thorough understanding of the markets.

Nothing is more important in issuing new securities

than to know when is the best time to issue them. If the market is flooded with new securities, if there has been an overproduction of stocks and bonds, if the demand is sluggish and prices are declining, the time is unpropitious for a new issue. It has been said that only once in a generation would a combination of conditions exist favorable to such a stupendous enterprise as the organization of the United States Steel Corporation.

Numerous underwriting syndicates are formed composed of weak material, and managed by adventurers in finance who have little to lose and much to gain. These are generally unable to carry the enterprises they have undertaken to insure, and the result is a crash in which many innocent victims suffer.

Allusion has been made to the United States Steel Corporation. A syndicate was formed to underwrite this. It was estimated that it might require $200,000,000 to float the huge company. The syndicate pledged itself to furnish that sum. A first instalment of $25,000,000 was called, and paid in to the managers of the syndicate. No official statement is made to the public of such operations. They are considered private business, and even subscribers to a syndicate may know little about its affairs beyond the fact that they put in so much money and draw out so much profit. But it has been announced that in the case of the Steel syndicate it was so successful that not only was $25,000,000 all that was necessary to be paid in of the $200,000,000 pledged, but that this sum has already been paid back to the subscribers; and in addition $20,000,000 profits, which is 10 per cent on the amount pledged and 80 per cent on the amount actually invested. Moreover, it is said that further dividends are to be declared, so that the subscribers to the syndicate will finally receive a sum equal to 20 per cent on the amount pledged, 160 per cent on the amount actually invested, and about 4 per cent on the par value of the stock floated.

Great as are the profits, they are generally no greater than the risks involved. The United States Steel Corporation recently determined to retire $200,000,000 of preferred stock and issue $250,000,000 of bonds in its place. It was announced that the underwriting syndicate would guarantee $100,000,000 for this operation and receive 4 per cent commission on the amount of the bonds actually placed. The syndicate would thus have a prospective profit of $10,000,000 if the entire issue should be sold, and one-fourth of this, or $2,500,000, would go to the banking-house managing the syndicate.

The general rule governing the underwriting of new securities is that the syndicates shall receive a commission of 5 per cent on the value of the securities underwritten. Let us return to the illustration of a railroad issuing $50,000,000 of bonds. The railroad, it may be presumed, is of good standing, and the security excellent. The company prefers, instead of securing a high premium on the bond, to save in the annual interest charges. So it issues a 3½-per-cent bond, with the probability that it will sell at par or perhaps higher. The underwriters agree to take the entire issue, say, at 98, but it charges a commission of 5 per cent, or about $2,500,000, for the labor, expense, and risk attending the operation. The railroad is now secure. It is assured of the money it needs, for which it has, indeed, paid a liberal discount, but no more liberal proportionately than would be required in procuring a modest loan in the ordinary market channels. The syndicate must now sell the bonds. If there is an active investment demand it may be able to accomplish this at once, at a considerable advance over the underwritten price of 98. Suppose it sells at 102, the syndicate would then reap a profit of 4 per cent, or $2,000,000 in addition to the commission of $2,500,000, less, however, the cost of advertising, wages, attorneys' fees, and other expenses. But if the demand was not as great as had been anticipated, the syndicate might find itself

with millions of dollars of securities on its hands, for which it must pay, but for which there is no adequate market.

In large operations the underwriting syndicate often forms a subsyndicate, or practically a blind pool, the members of which take a certain part of the risk involved, with a right to a proportionate share in the profit, less a usual commission of 5 per cent to the managers. It is through some such arrangements as these that great companies are formed, big loans floated, reorganizations and consolidations effected, and immense enterprises made possible.

There has been much said in criticism of the sums paid to bankers and syndicates as commissions for the marketing of securities for corporations. But the risk is often as great as the possible profit, and in other cases where there is a minimum of risk, coupled with a maximum of profit, the charge made by the banker corresponds in a measure to the fee of the great specialist in surgery, who may charge $5,000 for an operation taking only five minutes and involving no special labor to himself. But the patient pays not for the time and labor of the surgeon, but for his years of training and superior skill and knowledge. So in finance; if the corporation desires the services of the great specialist, it must be willing to pay the price demanded.

In some cases the underwriting syndicate is paid wholly in stock; for instance, in the underwriting of the securities of the new shipping trust it was reported that the syndicate would receive in stock an amount equal to 55 per cent of $50,000,000 of bonds it would guarantee.

In nearly all syndicate operations, especially when the formation of a new company, or the reorganization of an old one, is involved, the services of a legal adviser are required. The corporation lawyer is thus one of the important adjuncts of a private banking-house, and sometimes he is even made one of the partners.

CHAPTER XX

PANICS

Born in a boom and cradled in a panic, the history of the stock-market has been that of an alternation of booms and panics. The order of events is this: There is first a period of prosperity in business, based on good crops and a sound condition of the markets. Confidence prevails, credit is excellent, manufactures flourish, new enterprises are encouraged, expansion sets in. This induces an active speculation. The people are prosperous, and they are led to invest a part of their surplus earnings in stocks. The public takes possession of Wall Street. The volume of Stock-Exchange transactions increases. Prices advance by leaps and bounds. New issues of securities are absorbed quickly. There seems to be no limit to the upward movement. Then overspeculation and its attendant evils follow. Credit is unduly expanded. Recklessness and dishonesty corrupt the markets. Suddenly some event unforeseen, except, it may be, by the most experienced eyes, takes place. It comes in the form of a calamity. It strikes the stock-market when its resources are expanded to the utmost. The inflated values collapse like a punctured balloon. Panic seizes the Street. Credit is withdrawn. Money is hoarded. The banks contract their loans, forced liquidation sets in, weak houses are driven to the wall, failures are announced, general bankruptcy is threatened, the Clearing-House is obliged to issue loan certificates for the protection of solvent firms temporarily embarrassed, mills and factories close

their doors, thousands of laborers are thrown out of work, and distress is universal. After this follows a long period of stagnation, from which the country and the Street, slowly and painfully, emerge into a new era of good times.

A boom is a prolonged bull movement. A panic is a convulsion in the markets, causing a contraction of credits, a collapse in prices and failures in business. A distinction, however, needs to be made here. The word panic is overworked like many other words. It is commonly used to describe two very different things. Thus, we speak of the panic of 1893, and of the Venezuelan panic of December 19, 1895. But the former was a prolonged commercial crisis, involving the business of the whole country, the baleful effects of which were felt for years. The latter was a sudden paroxysm of fear, involving a crash in the stock-market, but scarcely felt outside of Wall Street, and which lasted only a day or two. Prof. W. G. Sumner speaks of a panic as "a wave of emotion, apprehension, and alarm which is more or less irrational." Such was the Venezuelan panic. It was produced by fear of war with England. The fear was caused by a sentence in President Cleveland's message. The war never broke out and the fear of it passed quickly away.

There have been eight commercial crises, involving practically the whole country, since 1812, or an average of one every eleven years, so that in the past ninety years there have been alternating periods of financial distress and financial prosperity, each period averaging about five and a half years. But in addition to these great financial crises there have been many panics and semi-panics, most of them confined to Wall Street, but felt with severity there.

Using the word panic, however, in its common meaning as applying to both kinds of monetary convulsions, the national and the local, the commercial and the speculative, it may be instructive to enumerate briefly these successive shocks to business.

Wall Street's first panic, if it may be dignified by that term, was in 1791–'92. The close of the Revolutionary War had been followed by a boom in business, both in England and the new American nation. This boom led to over-speculation, which in this country was in the new securities of the Government and in the stocks of the recently organized banks. "The period immediately succeeding the Revolutionary War," wrote William M. Gouge in 1833, "was in a peculiar sense an age of speculation." Distress and embarrassment followed, and to relieve the stringency in money, Secretary Hamilton bought United States bonds in the open market, thus releasing a stream of Treasury money. But the little panic did not last long, and for twenty years the United States enjoyed a period of marvelous growth.

The second war with England, in 1812–'14, precipitated the first great commercial crisis of the new country. The closing of the ports, the strain and expense of war, and abuses in banking were the causes of this crisis. Peace introduced another time of prosperity, which was interrupted by the short but severe panic of 1818, due largely to overexpansion of credits by the United States Bank and other banking institutions. Much misery ensued, and the debtors' prisons were filled.

It was eight years before there was another panic, and in the meantime the nation, with all the vitality of youth, recovered from its financial illness and enjoyed wonderful growth and strength.

There was a panic in England in 1825, caused by two poor harvests and overspeculation in South American enterprises, and the following year the tide of disaster reached the United States. The Franklin Bank, the Marble Manufacturing Company, and other firms failed, and Jacob Barker suspended. This disturbance over, the country enjoyed many years of prosperity, broken, however, by temporary monetary upheavals in 1829 and 1831.

But in 1837 one of the greatest panics in the history of

the country occurred. There had been a partial recovery from this, when another panic broke out in 1839, and there was another upheaval in 1841, due to the final failure of the United States Bank. The next panic was in 1848, but was not so disastrous. It was produced by the more severe crisis in England the preceding year.

Eight years of financial calm and commercial prosperity followed, with immense expansion, due chiefly to the discovery of gold in California, but in 1857 panic, like that in 1837, burst upon the country almost without warning.

The period of the civil war presented the characteristics of both panic and boom. Specie payments were suspended and the banks were obliged to issue loan certificates, but the enormous output of paper money produced all the effects of inflation. There was wild speculation and high prices, but the fearful strain of four years of battles severely taxed the resources of business. Eighteen hundred and sixty-four is called the year of the war panic.

The failure of Overend, Guerney & Company in England in 1866 produced a disturbance in Wall Street, but nothing like that experienced in London. Black Friday in 1869 was a Wall Street panic. The Chicago fire of 1871, involving a loss of $196,000,000, and the Boston fire of 1872, involving a loss of $80,000,000, also caused panics in the Street and much distress in different parts of the country. They were among the many things that brought about the great commercial crisis of 1873, from which both Street and nation suffered immense losses.

The resumption of specie payments in 1879 ushered in a memorable boom, but from the shooting of Garfield, in 1881, there started a gradual downward movement that culminated in the panic of 1884, which, in its worst effects, was confined to Wall Street, but which was felt to some extent all over the country.

The next panic was in 1890, as a result of the suspen-

sion of the Barings, of London. This was stopped from becoming a world-wide calamity only by the action of the Bank of England, which used its own resources and those of other institutions uniting with it to save the firm from utter failure. The New York Bank Clearing-House came to the relief of this country by a liberal issue of loan certificates. Wall Street was convulsed by the blow to credit inflicted by this event.

In this same year the Sherman silver-purchase bill was passed by Congress. While it was still under discussion in the national Legislature, A. J. Drexel, the famous Philadelphia banker, said to the writer that it would cause the worst panic from which this country had ever suffered, a prediction fulfilled three years later. The panic of 1893 was caused by the fear that the United States would go on a silver basis, and it did not end until the election of McKinley on a gold-standard platform.

The great convulsions of 1837, 1857, 1873, and 1893 were commercial panics of national scope. As a matter of fact, the effects of such crises are world-wide. All true panics are international. The American panics of 1814, 1818, 1826, 1831, 1837, 1848, 1857, 1866, 1873, 1884, 1890, and 1893 were closely preceded, accompanied, or followed by similar crises in Europe.

Since 1897 Wall Street has had several flurries or semi-panics, such as those caused by the death of former Governor Flower and the early British defeats in the Boer War, but only one real panic—that of May 9, 1901—and this was confined entirely to the stock-market.

There seems to be no absolute safeguard against the great commercial crises. But there has been evolved a mechanism which checks their progress and minimizes their evil effects. This mechanism is supplied by the Bank Clearing-House. This is the country's breakwater against the waves of panic. By the issue of Clearing-House loan certificates, the banks are able without fear to extend credit

to their solvent customers, and thus thousands of deserving firms are saved from failure.

But loan certificates do not prevent panics; they only check them. The very issue of loan certificates is proof that panic has begun. The very suggestion that certificates should be issued might of itself be sufficient to cause a panic. They are therefore an alleviation, not a preventive. They represent a measure adopted as a last resort. In five great monetary convulsions they have performed an immense service to the country, but something better and more instantaneous is required.

No epidemic travels faster than fear, and most Wall Street panics are the result of fear. Generally the most that can be done is to establish a quarantine. If a panic can only be foreseen it may be stopped, unless indeed the trouble is too deep-seated. But the unexpected is always happening in Wall Street, and there may not be time to raise safeguards.

Still it does not take long to pull the lever of safety. Let us take a recent and typical case. Nothing could have been more unexpected and terrifying than the shooting of McKinley. This took place, fortunately, after the close of the stock-market. One member of the Clearing-House Committee, J. Edward Simmons, was in the city. He took immediate steps to prevent the threatened panic. The next morning, before the stock-market opened, a meeting was held in the Clearing-House, attended by the leading bankers, at which a pool of $30,000,000 was formed, and the announcement made that this sum would be loaned in the Exchange at market rates. Not a dollar of the money was used. The $30,000,000 were not needed. The very assurance that the banks were ready and able to protect the market was sufficient to prevent any panic.

In times of monetary distress there is also another source of relief—the Treasury. This has been explained in another chapter. Better, however, than any Treasury

disbursement by redemptions of bonds would be a new banking system providing for a more elastic currency. Such a system would be an added safeguard against the ravages of panic. The need of currency reform has long been felt, and at last the country seems to be preparing for it, although it may take another presidential election to bring it about.

The present system of a bank-note circulation based on Government bonds, and of Government deposits in the banks also secured by bonds, is absolutely inadequate to the needs of the country. It is antiquated and inelastic. In times of financial distress it fails to furnish the needed relief. Speaking of the panic of 1893, former Comptroller of the Currency Hepburn in a recent address said:

"The Government was powerless to afford relief. Our currency was as unresponsive to the wants of trade as the pyramid of Cheops. Some banks borrowed United States bonds from savings-banks and other institutions and took out circulation, but no bank could buy bonds and take out circulation without aggravating instead of relieving the money stringency. What we need is legislation (or relief from legislation) that will permit banks to do within the law and under wholesome regulations precisely what the banks under stress of necessity did in 1893 in contravention of law."

Mr. Hepburn argues that the time has gone by when the Clearing-House loan certificates may be safely availed of in the city of New York. They would, he says, materially impair our national prestige as a money power in the world of finance and depreciate our securities as a nation. They would materially injure the banking and commercial interests of the city.

If it is true that Wall Street has outgrown the mechanism of Clearing-House loan certificates, there is indeed pressing need of a new and better safeguard against panics. But the financial doctors, while agreed in their diagnosis of

the disease, disagree as to the treatment. Many of them propose an asset currency—that is to say, the issue of bank-notes not secured by bonds, but based on the assets of the issuing banks. This is the reform recommended by the House of Representatives Committee on Currency and Banking. The Fowler bill if passed would permit the national banks to issue, under certain restrictions, asset currency proportionate to their capital. The bill also provides for branch banks.

But other experts allege that an asset currency would be dangerous, and that branch banks would create a greater concentration of capital in the leading money centers than is even now taking place, the rest of the country being "milked," as it were, for the benefit of these centers. In reply, proof is submitted to show that asset currency would be both safe and adequate, and that this is the only great country in which branch banking is not allowed.

An emergency circulation is the remedy proposed by those who are equally antagonistic to the present system and to asset currency. An emergency circulation, to be issued and retired by the Clearing-Houses, would, indeed, be based upon assets, but would be so heavily taxed that it would be created only in times of severe stringency, and would be quickly retired as soon as the period of need and distress passed. "We do not want," argues former Comptroller of the Currency Dawes, "an asset currency that will help us into a panic when we are out of one, but an emergency circulation which will help us out of a panic when we are in one."

To recapitulate:

There are two main classes of panics. 1. The commercial crisis, spreading over the entire country and involving every department of business. For this kind of panic there is now one principal mechanism of relief, namely, the Clearing-House loan certificates, which, as has been seen, are only an inadequate measure of the last resort. 2. The Wall Street

panic, confined chiefly to the stock-market and playing havoc with prices of securities, but not, at least immediately, harmful to outside business. It is sometimes possible by a prompt application of the power of the money market to check the progress of this kind of convulsion.

But it is urged by the financial experts that a new mechanism is imperatively demanded by the conditions of the country, a mechanism that will supply additional and safe currency when it is most needed, and that will be retired when there is no further use for it. Two main propositions are made: 1. A continuous note circulation based on the assets of the banks. 2. An emergency note circulation based on assets, but available only in time of panic.

There should be wise action before the next commercial crisis sets in.

CHAPTER XXI

MANIPULATION AND CORNERS

Manipulation is of two kinds, these being well indicated by the Standard Dictionary definitions of the word: 1, adroit or skilful management; 2, fraudulent or deceptive management.

The latter is dishonest without qualification, and much of the odium which attaches to Wall Street is the result of this kind of stock manipulation. It consists mainly in the influencing of the course of prices by false reports. This is the only kind of manipulation that can be played by a small man. Any one can lie, and a lie has a wonderful power of communicating itself through the Street by a sort of wireless telegraphy. It is remarkable how many things one hears in the stock-market that "aren't so." These false reports generally have a temporary effect on prices. But a lie persisted in is almost as good as the truth. A false report, therefore, may be so often repeated that in spite of official denials many will continue to believe in it, on the principle that where there is so much smoke there must be some fire. In such a case the effect on prices may be prolonged. The laws of the State make it a penal offense to originate or maliciously repeat falsehoods for the purpose of injuring the value of another's property, but it is difficult to track a lie to its lair.

In a suit recently brought against members of a syndicate charged with fraudulent manipulation, the complaint thus described its operations:

"Selling stocks to the public by improperly spread 'tips' and alleged information.

"Procuring loans from banking institutions throughout the country on stocks having fictitious values.

"Procuring the purchase of stocks by means of alleged customers furnished to various stock-brokerage houses throughout the country. The said customers would deposit on margin with the brokers a small proportion of the purchase price of the stocks, and these brokers would immediately buy for their supposed customers' account the stocks required, paying the syndicate's agents the full price thereof, these brokers advancing the difference from their own funds between such purchase price and the amount of margin deposited with them by their supposed customers."

In other words, by false tips and matched orders or wash sales the manipulators endeavored to establish fictitious quotations for their stocks. If, for instance, the security was actually worth only $50 a share, and by this means its market price was established at $120, the manipulators might be able either to sell to innocent investors at nearly 150 per cent profit, or to obtain loans from country banks for amounts largely in excess of true value. Bishop Potter, in a recent address at Yale, said truly: "The capitalist whom no honest man can hold converse with is he who artificially depresses values to the injury or loss of his fellow directors, or who withholds information regarding the conditions of his company for his own personal advantage, or who by obscure bookkeeping deceives those whose money he holds in trust." He might also have added, "or who artificially advances prices to the injury," etc.

But there is a higher type of manipulation than this. It may be described as the fine art of buying and selling stocks to the best advantage. The high manipulator is the diplomatist of the Street. The diplomatist never lies, but he sometimes makes the worst appear the better reason.

He does not lie, but he conceals his purposes so as not to disclose his operations.

Secrecy is, in fact, the first object of stock manipulation. It is quite impossible to tell in a few words how this is done. But it may be said briefly that the manipulator operates through several brokers at the same time. He may buy through some, and sell through others, so that no one, not even the brokers themselves, can be certain what his true position in the market is. Let us suppose that the manipulator represents a pool which has a large amount of stock to sell. It would not do to throw it upon the market at once, nor is it advisable that the Street should know that the pool is selling. So it may be buying with one hand and selling with the other, being careful, however, to sell more than it buys, and thus in the course of time the whole amount may be disposed of. There may have been a loss on, say, 100,000 shares bought, but the profit on 150,000 shares sold may be so large as to make the entire operation very satisfactory to the members of the pool. In order to maintain the price of the stock it is trying to sell, the pool may find it necessary to buy other stocks, in order to give the general market the appearance of strength. Capitalists controlling a railroad system generally consider it essential to "support" the stocks of the system, as the credit of the railroad, its ability to borrow money, and the ability of its individual directors to obtain the means for large operations depend, in no small measure, on the market value of its securities. Likewise an underwriting syndicate which has undertaken to float a large issue of new securities is sometimes compelled to prepare the market to absorb them. This preparation may consist of an elaborate manipulation of both money and stock markets, so as to make rates for loans easy and prices of stocks attractive to investors and speculators. As a preliminary to a bull market, it is often necessary first to clean out the weak holders of stocks and depress prices to a point where they look like bargains.

The first act of a bull pool, therefore, may actually be to bear prices. If the manipulator seeks to accumulate stocks, he will of course try to break prices by a raid or attack on the market, which is accomplished by furiously selling short. Suppose the manipulator discovers that long stock is held in weak hands, and that there are many stop orders in the market. He may institute a bear attack in order to force liquidation, and uncover the stop orders, which, as has already been explained, are orders to sell when prices reach certain figures, generally marking the limits of the customers' margins. The manipulator may, and often does, strive to influence prices in New York by having orders cabled from London, so as to convey the impression that English investors are in the market. This often has the desired effect on prices.

Manipulation of the highest kind is a millionaire's game. It can not be played by the man of limited means. It requires command of immense resources, such, for instance, as James R. Keene possesses as a man of wealth himself and as the agent of capitalists and syndicates of enormous power. The manipulator in stocks is like the manipulator in politics, who pulls the wires, which are generally underground, in order to control conventions and make nominations. But the politician, while thus engaged, can not entirely ignore the potency of public policies, and can not defy too long the will of the people, or he may be overwhelmed. So the manipulator in stocks, by pulling concealed wires and by a scientific arrangement of his forces as intricate and fascinating as a game of chess, is able to make prices. But he must nevertheless not go too far from the true basis of value, or even he may be overwhelmed in the market.

Manipulation plays an important part in stock speculation. For days and even weeks together the market may be in the hands of the manipulators. Difficult as it is to estimate values, it is still more difficult to fathom the

intrigues of the manipulators. It is, however, generally possible to ascertain whether the market as a whole is subject more to professional than public control.

A corner is that condition of a stock in which the supply is held by one operator or by a clique of operators, and in which many have contracted to deliver to the operator or clique what they can obtain only from the operator or clique. This is a condition which results from the operation of selling short. For instance, the total issue of a certain stock may be 100,000 shares. A clique of operators have quietly acquired all the available supply, as well as 40,000 shares more, bought from speculators who, believing that the price was too high, have sold the stock short. It is obvious that when these shorts are called upon to deliver the stock they have sold, they find that they can buy only from those to whom they have sold, and are therefore caught in a vise. The only way of escape is by settling at a price fixed by the clique or by a repudiation of contracts, which amounts to failure. The victims of a corner are not generally entitled to much sympathy, as they have, with their eyes open to the risks involved, sold something they did not own.

Corners may be divided into two classes, one including those which are deliberately planned, and the other those which create themselves. The corner of 1901 in Northern Pacific, which advanced the price to 1,000, was of the second class. It resulted naturally from a contest for the control of the company between two great syndicates which bought the entire issue of stock. Meanwhile, other individuals had sold short what they did not own, and when called upon to deliver on their contracts, found that the market supply was exhausted, and that the two syndicates, having bought for actual control, wanted the stock and not a settlement of differences. The result was a convulsion in the market.

Wall Street has had many corners in the past seventy

years. The most famous of all was Gould's attempt to corner gold, which ended in Black Friday. Another celebrated corner was that in Hannibal & St. Joseph stock in 1881. This was conducted by John R. Duff, and was not successful, owing to the faithlessness of Duff's broker, who was expelled from the Exchange.

Soon after this deal the State Legislature appointed a committee to investigate corners, and its report covered several hundred pages, but resulted in no important legislation. As long ago as 1836 the Stock Exchange itself appointed a committee to investigate corners. There had been the year before two big corners. A clique bought up the stock of the Morris Canal Company much below par and compelled many shorts to settle at 150. There was a corner in Harlem the same year. There were only 7,000 shares then issued, and yet the pool was able to buy from shorts over 60,000 shares inside of two months, and compelled them to settle at high figures.

In 1863 and 1864 Commodore Vanderbilt's two celebrated corners in Harlem took place. In one he caught the city aldermen, and in the other the State legislators, short, and compelled them to submit to his terms. The corners grew out of a franchise to lay rails on Broadway, and the politicians thought that they held the key to the speculation, but they were beaten by one of the ablest men in American business. The Prairie du Chien corner in 1865; the corner in Michigan Southern in 1866; the many corners in Erie conducted by Drew and Gould; the corner in Northwest, engineered by Gould in 1872, when the shorts had to settle at 230, and when an attempt was made to deliver preferred stock on common-stock contracts; and S. V. White's corner in Lackawanna in March, 1884—these are among the notable events in the history of speculation.

Corners in grain, cotton, and coffee have generally been failures. Even Keene failed utterly in an effort to corner the corn market. The reason is that the products are too

large, and there are too many sources of supply, successfully to establish a monopoly. Still there have been a few successful corners in products, and it is related that one hundred and twelve years ago Ouvrard, a noted European speculator, succeeded in cornering first the paper and then the coffee market.

While manipulation and corners have not been and apparently can not be prevented, many of the grosser evils that formerly attended them have been reformed. The millennium has not arrived in Wall Street, but security and good faith abound there to a larger extent than they did thirty years ago.

CHAPTER XXII

THE STATE OF TRADE

Wall Street by manipulation may control prices, but the country makes values. The connection between the stock-market and the business of the nation is necessarily very intimate. As the Street serves as the clearing-house of commerce, finances the railroads and great industrial enterprises, and furnishes the facilities for moving the crops to market, an upheaval in the Stock Exchange, if of sufficient magnitude, may be felt in every shop and mill and farm from the Atlantic to the Pacific. On the other hand, depression in trade produces stagnation in speculation.

The three main sources of a nation's wealth are its mines, its agriculture, and its manufactures. The securities dealt in on the Exchange represent the mines, the crops, and the products of the factories. If the mines are prolific, the crops bountiful, and the forges ablaze by night and by day, the fact is reflected in the Stock Exchange transactions. Prices advance, sales increase, speculation is active. Wall Street therefore keeps its fingers constantly on the pulse of trade.

The three principal products of the mines are gold, iron, and coal. An enormous output of gold such as followed its discovery in California, and more recently in the Klondyke and the Transvaal, has been responsible for great uplifts in prices and activity in speculation. Less than twenty years ago depression in the coal trade caused a severe shrinkage

in the prices of the coal stocks, and the whole stock-market suffered thereby. In 1902 the market suffered from a strike in the anthracite coal region. The unequaled activity in the iron and steel trade for the past five years was one of the prime factors in the boom in stocks and in business. The three principal crops are cotton, wheat, and corn. The time was when "cotton was king," and a failure in the cotton-crop spelled national disaster. Even now a short cotton-crop would be not only a severe blow to the South, but also inflict a loss that would be felt more or less all over the country. A failure in corn- or wheat-crop has more than once been the forerunner of a commercial crisis. Prosperous as the country now is, it nevertheless feels the effect of the short corn-crop of 1901. But the time seems to be past when disaster to one crop or one industry necessarily means a general business convulsion. It takes a combination of calamities to produce wide-spread panic.

There are two excellent barometers of trade: 1, the exchanges of the clearing-houses; 2, the earnings of the railroads. The banks supply the credit necessary to carry on the operations of production and transportation, and their transactions are a true measure of business activity. There are more than ninety clearing-houses in the United States, and the aggregate of their exchanges of checks and drafts affords an almost unfailing indication of the volume of business. While the New York Clearing-House is the largest and most important of all, its exchanges are not always as fair a guide to the state of trade, because they are swelled by the large volume of speculation in Wall Street. For instance, a statement for the week ending March 6, 1902, showed a loss in bank clearings of nearly 8 per cent from the year previous. But this loss was almost entirely in New York, where there had been a large decrease in stock speculation. Outside of New York there was a gain of 9 per cent. From this it would be fair to infer that,

while the stock-market was dull, general trade was active, which was indeed the actual fact. The two leading commercial agencies, R. G. Dun and Company and Bradstreet's, make a practise of gathering weekly reports from all the clearing-houses, and every Friday night they issue reviews of the state of trade, containing summaries not only of the bank clearings, but also of railroad earnings, crop reports, trade statistics, etc., the whole presenting generally excellent pictures of the business situation.

The railroads are not producers of wealth, but transporters. They connect the farm and the factory with the consumers. They carry the corn, the cotton, the iron, and the manufactured products to the markets. So statistics of the gross earnings of the railroads afford an index of trade conditions. When, therefore, one sees a statement like this, "Railway earnings for the first week in May increased 6.02 per cent over those of the corresponding week of last year, and 19.9 per cent over 1900," it is fair to assume that trade is maintaining a rapid pace.

As most of Wall Street speculation is in railroad stocks, and as one-fifth of the nation's wealth is invested in railroads, it is needless to say how important from every point of view becomes the condition of these properties. Railroad reports are therefore the chief literature of Wall Street. They are studied by its experts with analytical skill. The weekly statements of gross earnings collectively show whether business has gained or lost. The monthly statements show something of the management of the railroads, as these give not only the gross receipts, but also the operating expenses and the net earnings. It may happen that while a railroad is earning more, it is also costing still more to operate it; in which case, while the gross earnings show an increase, the net earnings reveal a decrease, and it is from the net earnings that interest and dividends are paid.

The annual report is, or ought to be, a complete state-

ment of the entire business of the railroad, containing a financial balance-sheet, a description of its physical condition and equipment, and detailed reports of operations in every department, showing the different sources of revenue, the amount and kind of freight carried, the number of passengers transported, the various objects of expenditure, the cost of improvements and operation, etc., the whole usually accompanied by some general account of policy by the president.

The St. Paul reports are regarded by many experts as being on the whole the fullest in details of any issued. One must know how to analyze a railroad report in order to be able to use it to the best advantage. It must be studied by comparison with preceding reports of the same company, and with reports of other lines in the same section of the country. The object of analysis is to ascertain the true value of the securities of the company. Take, for instance, any given railroad. We ascertain, first, its mileage. In order to obtain the value of a piece of real estate as compared with another property in the same street, it is necessary to reduce both to the number of feet fronting on the street. In like manner, to compare the operations of one road with those of another of different length, it is necessary to reduce every item of income and expense to per miles. Thus we find how much the capital stock is per mile, how much the gross earnings are per mile, what are the operating expenses per mile, what the fixed charges are per mile, what the net income or surplus is per mile, and how much this surplus amounts to on the stock. We then compare this exhibit with that of other lines in the same territory, study the history of the company, and learn all we can of the character of its management. We are now prepared to form a judgment: 1. Whether the company's capital is or is not above the average issue of lines in the same territory—in other words, whether it is or is not overcapitalized. 2. Whether the gross earnings per mile

compare favorably, or otherwise, with those of the other systems. 3. Whether the percentage of operating expenses indicates economical management or not. 4. Whether the fixed charges are too heavy or otherwise. 5. Whether the surplus applicable to dividends exceeds the dividends actually paid, and whether or not it is likely to increase. If the price of the stock is 170 and the dividend is 6 per cent, it yields to the holder 3.52 per cent; but if the net income applicable to dividends amounts to 9 per cent, that means a possible yield of 5.29 per cent on the stock at the market price. If the history of the company shows consistent, conservative, and honest management, we are, with all these facts in our possession, prepared to determine whether the market price is too low or too high. To Albert Fink, long Pool Commissioner, is due the credit of having given a scientific form to railroad reports, and the leading companies now conform more or less to his ideas. Those who wish to get a close and critical view of this scientific form should consult Thomas F. Woodlock's Anatomy of a Railroad Report.

Crop reports are issued regularly by the Government Department of Agriculture, and these give official information regarding the acreage and condition of the growing crops. For instance, in April an estimate is given of the average condition of winter wheat; in June estimates are given of spring and winter wheat; in July the acreage and condition of corn is disclosed; and so on through the year, each month's report giving a showing of all the principal crops of the country. Wall Street is not content to rely entirely on these official reports. Many unofficial reports are issued, some of them elaborate and reliable, being summaries of statements sent in from hundreds of correspondents in all sections of the crop area. The Government also issues monthly reports of commerce showing the value of imports and exports.

From these various sources of information Wall Street

contrives to keep fairly well posted as to the state of the country, and if its stock-market goes astray from the line of true value, it is because it fails to comprehend the facts as they are presented, or because of manipulation or of some derangement of the street's machinery, such as a stringent money market.

CHAPTER XXIII

PESTS OF WALL STREET

The Wall Street district is filled with bucket-shops in various forms, bogus brokers, tipsters, blind-pool sharps, and men who offer to sell you an infallible system for beating the stock-market. It was estimated last year that there were more than two hundred bucket-shops in and around Wall Street, and upward of eight hundred in the United States. Some of these concerns go by the name of "Exchanges" and "Syndicates." Others advertise largely as "bankers," and maintain expensively furnished suites of offices.

The Street has suffered severely in money and reputation from these pests of speculation. They certainly do a heavy business, a part of which would otherwise flow through the regular channels of speculation. The outsider naturally identifies them with the legitimate operations of the Street. He supposes that they are a part of the system. But they are foul excrescences on the stock-market. They are practically of the same character as pool-rooms and policy-shops. They are gambling places, with this difference in favor of the gambling-house: there, one can at least see the dealer; but in these outside Wall Street concerns one enters a blind pool, and he may or may not meet with fair treatment.

In the bucket-shop there is no actual transfer of stock or "intent to deliver." All that takes place practically is the registering of a bet on prices. This affords facilities for

cheap speculation, and the bucket-shops are filled with clerks and other persons, women as well as men, of small salaries or incomes, all eager to double their money in the Street, and all inflamed by the stories told of the immense fortunes that have been made there. These are the very people who should keep out of the stock-market. They have not the means and the knowledge for successful operations there. Most people who enter Wall Street are bulls, and the customers of the bucket-shops bet that prices will advance, so that the proprietors reap a golden harvest in a bear market. In a continuous bull market the bucket-shops generally shut up. They can make no money when their customers are winning. That is the difference between them and the Stock-Exchange broker. The latter is most successful when his customers are making money. Every now and then the papers record the failure of one of these bucket-shop firms. The real proprietors decamp, and all that remain are a few clerks, a set of office furniture, and a crowd of clamorous and angry customers. Most of the concerns have high-sounding names, sometimes imitating as much as possible the names of famous houses. Usually the men actually in control keep in the background.

Writing of bogus brokers, Francis L. Eames says, in his book on "The Stock Exchange": "These people establish themselves in the neighborhood of Wall Street in large, imposing offices, with numerous clerks. By extensive advertising in the newspapers and by sending out vast quantities of circulars through the mails, large sums of money are drawn from the public theoretically for speculation in stocks. The bogus broker is not connected with the Exchange, and no stocks are really bought or sold, though notices of purchase and sale are given to customers, usually without the names of the parties with whom the contracts are supposed to have been made. A favorite method is to induce people to enter into alleged

syndicate operations or pools, and customers are told of the large sums that have been made in previous operations."

The Stock Exchange wages relentless war on the bucket-shops and bogus brokers, and has tried in every way to deprive them of its quotations, but they thrive in spite of all. A new crop of victims is harvested every year. The sublime credulity of some people when it comes to investing their money was signally illustrated in the case of Miller, the 520-per-cent-Franklin-Syndicate man, who even after he was sent to prison for his swindle continued to receive money from persons in different parts of the country, asking him to invest it for them.

Senator Spooner, in a recent speech in the United States Senate, declared "that dealings in the bucket-shops constitute an insidious and destructive form of gambling." Yet Congress, in passing the war-tax repeal bill, would not retain the tax on bucket-shops, which had had the effect at least of reducing their number.

There is one way of differentiating between Stock-Exchange and bogus brokers. The former, when they advertise, advertise only their names, their business, and their Exchange connection. They might make the line of separation from the bogus brokers still clearer if they did not advertise at all. In February, 1898, the Governing Committee of the Stock Exchange passed the following resolution:

"*Resolved*, That, in future, the publication of an advertisement of other than a strictly legitimate business character by a member of the Exchange shall be deemed an act detrimental to the interest and welfare of the Exchange."

The Exchange might well have gone a step further, and prohibited the members from advertising at all. That is the rule of the London Stock Exchange, which not only prohibits advertising by members, but itself advertises the fact in the newspapers as follows:

THE STOCK EXCHANGE

NOTICE

No Member of the Stock Exchange is allowed to advertise for business purposes, or to issue circulars to persons other than his own principals.

Persons who advertise as Brokers or Share Dealers are not Members of the Stock Exchange, or under the control of the Committee.

A list of Members of the Stock Exchange who are Stock and Share Brokers may be seen at the Bartholomew-lane entrance of the Bank of England, or obtained on application to

EDWARD SATTERTHWAITE,
Secretary to the Committee of the Stock Exchange.

COMMITTEE ROOM, THE STOCK EXCHANGE, LONDON, E. C.

This has the effect of marking a line of separation between legitimate and illegitimate brokers like that existing between reputable doctors, who do not advertise, and quacks, who do.

The bogus broker and tipster fill the advertising columns with their flamboyant appeals to would-be speculators. Advertising is expensive, but it must pay them. Some of the advertisements of the bogus brokers are indeed masterpieces of the art of ad. writing.

Wall Street is too often judged by these bucket-shops and tipsters. It would be fairer to judge it by such men of character and faithfulness to trusts as the late Frederick D. Tappen, of whom J. Edward Simmons, in a recent eulogy, said :

"Not all the great battles of the world are won by the soldier. There are generals in finance as in war. There are heroes in the counting-house as well as on the battlefield; men who for honor and for duty stand firm, with undaunted courage, at the post of danger in the day of trial."

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